

Indiana Public Retirement System



2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2013

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Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE INDIANA PUBLIC RETIREMENT SYSTEM BOARD OF TRUSTEES

Report on the Financial Statements

We have audited the accompanying financial statements of the Indiana Public Retirement System Board of Trustees, as of, and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Indiana Public Retirement System's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Indiana Public Retirement System Board of Trustees' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Indiana Public Retirement System Board of Trustees' internal control. Accordingly we express no such opinion. An audit also includes evaluating the accounting principles used and significant estimates made by management, as well as evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the plan's net position of the fiduciary funds of the Indiana Public Retirement System Board of Trustees, as of June 30, 2013, and the respective changes in the financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

INDEPENDENT AUDITOR'S REPORT (Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress, and Schedule of Contributions from Employers and Other Contributing Entities be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Indiana Public Retirement System's basic financial statements. The Introductory Section, Schedule of Administrative and Project Expenses, Schedule of Administrative Contractual and Professional Services Expenses, Schedule of Project Expenses, Schedule of Project Contractual and Professional Services Expenses, Schedule of Investment Expenses, Investment Section, Actuarial Section, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Administrative and Project Expenses, Schedule of Administrative Contractual and Professional Services Expenses, Schedule of Project Expenses, Schedule of Project Contractual and Professional Services Expenses, and Schedule of Investment Expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Administrative and Project Expenses, Schedule of Administrative Contractual and Professional Services Expenses, Schedule of Project Expenses, Schedule of Project Contractual and Professional Services Expenses, and Schedule of Investment Expenses, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section, Investment Section, Actuarial Section, and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

November 20, 2013

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) of the Indiana Public Retirement System (INPRS) provides a narrative summary of INPRS financial position and performance for fiscal year ended June 30, 2013, including highlights and comparative data. The MD&A is presented as required supplementary information to the financial statements of the INPRS Comprehensive Annual Financial Report (CAFR) and should be read in conjunction with the Letter of Transmittal included in the Introductory Section, and the Financial Statements, the Notes to the Financial Statements, Required Supplementary Information, and the Other Supplementary Schedules presented in the Financial Section.

INPRS is an independent instrumentality of the State of Indiana, administering eight (8) pension trust funds including seven (7) Defined Benefit retirement plans and one (1) Defined Contribution retirement plan, two (2) other employment benefit trust funds, and one (1) investment trust fund. The following retirement plans and non-retirement funds are included in the INPRS financial statements. In this regard, refer to the Notes to the Financial Statements for descriptions of these retirement plans and non-retirement funds.

Defined Benefit Retirement Plans:

1. Public Employees' Retirement Fund (PERF)
2. Indiana State Teachers' Retirement Fund (TRF)
3. 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund)
4. Judges' Retirement System (JRS)
5. State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan)
6. Prosecuting Attorneys' Retirement Fund (PARF)
7. Legislators' Retirement System – Legislators' Defined Benefit Plan (LEDB Plan)

Defined Contribution Retirement Plan:

1. Legislators' Retirement System – Legislators' Defined Contribution Plan (LEDC Plan)

Other Employment Benefit Trust Funds:

1. State Employees' (SE) Death Benefit Fund
2. Public Safety Officers' (PSO) Special Death Benefit Fund

Investment Trust Fund:

1. Pension Relief Fund (PR Fund)

INPRS is governed by a nine-member Board of Trustees, appointed by the Governor pursuant to the following criteria:

- A. One (1) trustee with experience in economics, finance, or investments
- B. One (1) trustee with experience in executive management or benefits administration
- C. One (1) trustee who is an active or retired member of the 1977 Fund
- D. Two (2) trustees who are TRF members with at least 10 years of creditable service
- E. One (1) trustee who is a PERF member with at least 10 years of creditable service
- F. Director of the State Budget Agency, or designee

Management's Discussion and Analysis, continued

- G. Auditor of State, or nominee
- H. Treasurer of State, or nominee

Financial Highlights

- Total net position of INPRS was \$27,085 million as of June 30, 2013. Net position of the retirement plans, which is restricted for future benefit payments, was \$27,068 million as of June 30, 2013. The remaining \$17 million of net position is restricted for future death benefits and local unit withdrawals from the Pension Relief Fund.
- Total net position of INPRS increased by \$1,521 million, or 5.9 percent, during fiscal year 2013. The increase in net position from fiscal year 2012 to fiscal year 2013 was primarily due to net investment income of \$1,514 million. Contributions of \$2,503 million and other additions of \$15 million were mostly offset with benefit payments/other deductions of \$2,511 million.
- INPRS contributions primarily from employers and members increased to \$2,503 million during fiscal year 2013, or by \$472 million (23.2 percent), from contributions of \$2,031 million during fiscal year 2012. The major reason for this increase was due to the State appropriating an additional \$329 million from State excess reserves in accordance with 2012 HB 1376. There was also a \$93 million increase in appropriations including the pre-funding of a one-time check (a.k.a. 13th check) of \$20 million. In addition, contributions due to employer rate increases/other increased by \$50 million.
- The INPRS rate of return for fiscal year 2013 was 6.0 percent, or \$1,514 million, on a market value basis, compared to a return of 0.7 percent or \$173 million for fiscal year 2012.
- INPRS paid \$2,450 million in pension and disability benefits, special death benefits, distributions of contributions and interest, and pension relief distributions during fiscal year 2013. This represented an increase of \$96 million, or 4.1 percent, from the \$2,354 million paid during fiscal year 2012.
- Net position of the Pension Relief Fund was \$36.6 million as of June 30, 2013, compared to \$18.4 million as of June 30, 2012. PR Fund distributions are mandated by state law. The necessary funds required to pay the PR Fund distributions come primarily from State General Fund appropriations, State cigarette and alcohol taxes, and State lottery proceeds.
- INPRS membership was 450,103 as of June 30, 2013. There were 222,877 active members, 133,128 benefit recipients, 30,213 terminated vested members, and 63,885 terminated non-vested members.
- As of June 30, 2013, the date of the most recent actuarial valuation, the aggregate INPRS (excluding the TRF Pre-1996 Account Pay-As-You-Go plan) funded ratio was 85.3 percent. This represents an increase of 4.1 percentage points from the 81.2 percent funded ratio as of June 30, 2012. The increase was due to the State appropriating additional funds from State excess reserves in accordance with 2012 HB 1376, higher state and other employers' contribution rates and a favorable rate of return on investments.

Overview of the Financial Statements

The MD&A is intended to serve as an introduction and overview of the Financial Section in the INPRS CAFR. The Financial Section is comprised of four (4) components: (1) Financial Statements, (2) Notes to the Financial Statements, (3) Required Supplementary Information, and (4) Other Supplementary Schedules. The information available in each of these sections is briefly summarized as follows:

Management's Discussion and Analysis, continued

1. Financial Statements

The Statement of Fiduciary Net Position is a point-in-time snapshot of the INPRS assets and liabilities at fiscal year end June 30, 2013 and June 30, 2012. It reports the net position (assets less liabilities equals net position) restricted for pension benefits, death benefits and pool participants. This statement reflects INPRS investments, at fair value, along with cash, receivables, and other assets and liabilities at June 30, 2013 and June 30, 2012.

The Statement of Changes in Fiduciary Net Position displays the effect of financial transactions that occurred during fiscal year 2013, where additions less deductions equal net increase (or net decrease) in net position. Additions come primarily from contributions by employers, members, and State appropriations, lottery proceeds and taxes, as well as net investment income resulting from investing and securities lending activities during the period. Deductions are pension, disability and death benefit distributions, PR Fund distributions and withdrawals, administrative and project expenses, and other deductions. This increase (or decrease) in net position reflects the change in the value of Fiduciary Net Position that occurred between June 30, 2013 and June 30, 2012.

2. Notes to the Financial Statements

The Notes to the Financial Statements are an integral part of the financial statements and provide additional detailed information that is essential for a full understanding of the data provided in the INPRS financial statements.

Note 1. – provides a general description of the retirement plans administered by INPRS. Information regarding membership, retirement benefits, and disability and survivor benefits for each of the retirement plans is also provided.

Note 2. – provides a description of the non-retirement funds.

Note 3. – provides a summary of significant accounting policies, including the basis of accounting, investment accounting policies, management's use of estimates, and other significant accounting policies.

Note 4. – provides information about member and employer contributions for each retirement plan.

Note 5. – provides information on deposits and investments.

Note 6. – provides information on derivative financial instruments.

Note 7. – provides information on long-term commitments for alternative investments.

Note 8. – provides information on risk management.

Note 9. – provides information on contingent liabilities.

Note 10. – provides information on the funded status and actuarial information for each of the defined benefit retirement plans.

Note 11. – provides information on subsequent events to fiscal year end 2013.

Note 12. – summarizes the Required Supplementary Information and Other Supplementary Schedules.

3. Required Supplementary Information

Because of the long-term nature of public defined benefit pension plans, financial statements for the past fiscal year alone cannot provide sufficient information to properly reflect the funding progress of the plans. Therefore, in addition to the basic financial statements, two (2) required schedules of historical trend information related to the defined benefit plans are presented

Management's Discussion and Analysis, continued

as Required Supplementary Information (RSI) in the INPRS CAFR Financial Section. The two (2) RSI schedules consist of a Schedule of Funding Progress and a Schedule of Contributions from Employers and Other Contributing Entities. These two (2) schedules are based on the actuarial valuations performed by the INPRS actuaries. The actuarial information is based upon assumptions made about future events at the time the valuations were performed; and therefore, the amounts presented are management's estimates. The Actuarial Section of the INPRS CAFR provides additional actuarial-related information.

4. Other Supplementary Schedules

The Other Supplementary Schedules consist of a Schedule of Administrative and Project Expenses, Schedule of Administrative Contractual and Professional Services Expenses, Schedule of Project Expenses, Schedule of Project Contractual and Professional Services Expenses, and Schedule of Investment Expenses.

Financial Analysis

Statement of Fiduciary Net Position

As shown in the table below, the total net position for INPRS was \$27,085 million as of June 30, 2013 which represents an increase of \$1,521 million, or 5.9 percent, compared to total net position of \$25,564 million as of June 30, 2012.

Net Position (dollars in thousands)				
	June 30, 2013	June 30, 2012	Increase / (Decrease)	Percentage Change
Assets				
Cash	\$ 11,295	\$ 28,134	\$ (16,839)	(59.9) %
Receivables	2,526,780	1,993,329	533,451	26.8
Investments	28,733,268	27,661,980	1,071,288	3.9
Capitalized Assets (Net)	12,154	10,929	1,225	11.2
All Other Assets	304	125	179	143.2
Total Assets	\$ 31,283,801	\$ 29,694,497	\$ 1,589,304	5.4 %
Liabilities				
Investments Payable	\$ 3,923,156	\$ 3,965,197	\$ (42,041)	(1.1) %
All Other Liabilities	276,001	165,174	110,827	67.1
Total Liabilities	\$ 4,199,157	\$ 4,130,371	\$ 68,786	1.7 %
Total Net Position	\$ 27,084,644	\$ 25,564,126	\$ 1,520,518	5.9 %
Investment, Administrative and Project Expenses as a Percentage of Net Position	0.68%	0.62%	0.06%	

Total assets of INPRS were \$31,284 million as of June 30, 2013, compared to \$29,695 million as of June 30, 2012, which represents an increase in total assets of \$1,589 million, or 5.4 percent. The primary reasons for this increase are as follows:

- **Cash** decreased by \$17 million, or (59.9) percent, as cash from contributions was invested more timely.
- **Receivables** increased by \$533 million, or 26.8 percent, primarily due to an increase in the foreign currency futures contracts receivable. This increase was partially offset by a decrease in contributions receivable resulting from a new employer reporting

Management's Discussion and Analysis, continued

system which was implemented in October 2012. Employers report and pay contributions on a payroll basis instead of quarterly.

- **Investments** increased by \$1,071 million, or 3.9 percent, driven primarily by the positive rate of return on investments of 6.0 percent for fiscal year 2013. Of the \$1,071 million increase, other investments increased by \$1,623 million (26 percent), equities increased by \$470 million (8 percent), securities lending increased by \$183 million (20 percent), short-term investments decreased by \$1,026 million (41 percent), fixed income investments decreased by \$110 million (1 percent), and repurchase agreements decreased by \$69 million (70 percent).
- **Net Capitalized/Other Assets** increased by \$1.4 million, or 12.7 percent, due to the capitalization of software costs related to the modernization projects.

Total liabilities of INPRS were \$4,199 million as of June 30, 2013, compared to \$4,131 million as of June 30, 2012, which represents an increase in total liabilities of \$68 million, or 1.7 percent. The primary reasons for the increase are as follows:

- **Investments Payable** including Securities Lending Obligations decreased by \$42 million, or (1.1) percent, due to the timing of transactions at the end of fiscal year 2013.
- **All Other Liabilities** increased by \$110 million, or 67.1 percent, primarily due to TRF monthly retirement benefits payable. At the end of June 2012, there was no TRF payable due to the TRF July 2012 payment being paid in late June 2012.

A summary of net position by fund compared to the prior fiscal year is as follows:

Summary of Net Position by Fund (dollars in thousands)

	June 30, 2013	June 30, 2012	Increase / (Decrease)	Percentage Change
PERF	\$ 12,720,601	\$ 12,243,755	\$ 476,846	3.9 %
TRF	9,648,879	9,077,059	571,820	6.3
1977 Fund	4,116,861	3,817,013	299,848	7.9
JRS	375,752	262,326	113,426	43.2
EG&C Plan	97,019	76,543	20,476	26.8
PARF	47,920	27,689	20,231	73.1
LEDB Plan	3,337	3,385	(48)	(1.4)
LEDC Plan	25,322	25,579	(257)	(1.0)
SE Death Benefit Fund	7,683	7,683	-	-
PSO Special Death Benefit Fund	4,653	4,683	(30)	(0.6)
PR Fund	36,617	18,411	18,206	98.9
Total Net Position	\$ 27,084,644	\$ 25,564,126	\$ 1,520,518	5.9 %

Liquidity

The System's defined benefit liquidity needs are met through employer and other contributions, earnings from investments, and the well diversified portfolio of INPRS. On June 30, 2013, INPRS held over \$4.2 billion in Money Market Sweep Vehicles and U.S. Government and Agency Securities. INPRS also held approximately \$1.4 billion in highly liquid, Large-Cap Domestic

Management's Discussion and Analysis, continued

Equities. Because of their characteristics, investments in Asset Backed Securities, Commingled Funds, Corporate Bonds, Non U.S. Governments, other Domestic Equities, International Equities, and Risk Parity are not considered a primary source of liquidity. Investments in Private Equity, Absolute Return, and Private Real Estate are generally considered illiquid.

Statement of Changes in Fiduciary Net Position

As shown in the table below, the total net position for INPRS increased by \$1,521 million, or 5.9 percent, for fiscal year 2013, compared to a total net position decrease of \$192 million, or (0.7) percent as of June 30, 2012. A summary of changes in net position during the fiscal years ended June 30, 2013 and June 30, 2012, is presented below:

Changes in Net Position (dollars in thousands)				
	June 30, 2013	June 30, 2012	Increase / (Decrease)	Percentage Change
Additions				
Member Contributions	\$ 326,518	\$ 335,548	\$ (9,030)	(2.7)%
Employer Contributions	2,087,315	1,605,839	481,476	30.0
Other Contributions	89,132	89,763	(631)	(0.7)
Net Investment Income	1,514,313	172,801	1,341,512	776.3
Other Additions	14,865	13,125	1,740	13.3
Total Additions	\$ 4,032,143	\$ 2,217,076	\$ 1,815,067	81.9 %
Deductions				
Benefits – Pension, Disability, Death	\$ 2,132,433	\$ 2,034,849	\$ 97,584	4.8 %
Distributions of Contributions and Interest	98,414	95,431	2,983	3.1
Pension Relief Distributions	219,814	224,220	(4,406)	(2.0)
Administrative Expenses	32,193	31,489	704	2.2
Project Expenses	13,728	9,359	4,369	46.7
All Other Deductions	15,043	13,275	1,768	13.3
Total Deductions	\$ 2,511,625	\$ 2,408,623	\$ 103,002	4.3 %
Net Increase / (Decrease) in Net Position	\$ 1,520,518	\$ (191,547)	\$ 1,712,065	893.8 %
Changes in Net Position Restricted for:				
Pension Benefits	\$ 1,502,042	\$ (158,280)		
Future Death Benefits*	270	1,261		
State and Local Units**	18,206	(34,528)		

*Other Employment Benefit Trust Funds

**Pension Relief Fund only

Additions

Additions to the net position of INPRS needed to finance retirement benefits are accumulated primarily through contributions and investment income. Total additions for INPRS were \$4,032 million for fiscal year 2013, compared to \$2,217 million for fiscal year 2012, which represents an increase in total additions of \$1,815 million, or 81.9 percent. The primary reasons for the increase are as follows:

- Employer Contributions increased by \$481 million, or 30.0 percent. The primary reason for this increase was due to the State appropriating an additional \$329 million from State excess reserves in accordance with 2012 HB 1376. There was also a \$93

Management's Discussion and Analysis, continued

million increase in appropriations including the pre-funding of a one-time check (a.k.a. 13th check) of \$20 million. In addition, contributions due to employer rate increases/other increased by \$59 million.

- Net Investment Income increased by \$1,342 million, or 776 percent, driven by a 6.0 percent return in fiscal year 2013 compared to a 0.7 percent return for fiscal year 2012.
- Other Additions increased by \$2 million, or 13.3 percent, due to an increase in interfund transfers which by their nature, can fluctuate significantly from year to year.

Deductions

Benefit payments, distributions of contributions and interest to members who terminate employment, administrative expenses and project expenses primarily comprise the INPRS expenses, or deductions from net position. Total deductions for INPRS were \$2,511 million for fiscal year 2013, compared to \$2,409 million for fiscal year 2012, which represents an increase in total deductions of \$102 million, or 4.3 percent. The primary reasons for the increase are as follows:

- **Pension, Disability and Death Benefits** increased by \$98 million, or 4.8 percent, due to an increase in the number of retirees.
- **Project Expenses** increased by \$4 million, or 46.7 percent, primarily due to a higher amount of the project expenses for the Employer Reporting System and the Indiana Pension Administration System modernization program, in fiscal year 2013 versus fiscal year 2012.
- **All Other Deductions** increased by \$2 million, or 13.3 percent, due to higher local withdrawals and interfund transfers which by their nature, can fluctuate significantly from year to year.

Consolidated Defined Benefit Asset Allocation and Rate of Return on Investments

Effective October 28, 2011, the INPRS Board of Trustees approved the new strategic allocation for the Consolidated Defined Benefit Assets. Substantially all of the investments for the retirement plans administered by INPRS are pooled in the Consolidated Defined Benefit Retirement Assets. The following table presents the INPRS Consolidated Defined Benefit Assets investment allocation as of June 30, 2013, compared to the INPRS current target investment allocation and actual allocation as of June 30, 2012.

Consolidated Defined Benefit Asset Allocation

	June 30, 2013 Actual	June 30, 2013 Target	June 30, 2012 Actual	Allowable Range For Investments ¹
Public Equity	24.2%	22.5%	25.2%	20.0% to 25.0%
Private Equity	13.0	10.0	13.3	7.0% to 13.0%
Fixed Income - Ex Inflation-Linked	22.0	22.0	25.1	19.0% to 25.0%
Fixed Income - Inflation-Linked	10.0	10.0	10.5	7.0% to 13.0%
Commodities	7.3	8.0	7.9	6.0% to 10.0%
Real Estate	5.3	7.5	4.7	4.0% to 11.0%
Absolute Return	8.6	10.0	6.3	6.0% to 14.0%
Risk Parity	9.6	10.0	7.0	5.0% to 15.0%
Total	100.0%	100.0%	100.0%	

¹See Notes to the Financial Statements, Note 5, for additional information.

Management's Discussion and Analysis, continued

The Consolidated Defined Benefit Assets (i.e., INPRS-controlled asset allocation) rate of return on investments was positive 6.0 percent for fiscal year 2013, compared to the 6.75 percent actuarial-assumed long-term rate of return. The following provides a brief summary of the rate of return for each asset class for fiscal year 2013, compared to the respective benchmark for each asset class. The Investment Section provides additional information for the INPRS investments.

- **Public Equity**, which seeks to provide long-term capital appreciation and income through exposure to public equity securities, had a return on investment of positive 18.2 percent for fiscal year 2013. This return compared 1.1 percentage points favorable to the benchmark of positive 17.1 percent for the MSCI All Country World IMI Index.
- **Private Equity**, which seeks to provide risk-adjusted returns in excess of the public equity markets while simultaneously decreasing the volatility of the INPRS investment portfolio through diversification, had a return on investment of positive 11.7 percent for fiscal year 2013. This return compared (12.8) percentage points unfavorable to the benchmark of positive 24.5 percent for the Russell 3000 Index plus 300 basis points.
- **Fixed Income – Ex Inflation-Linked**, which seeks to generate current income and long-term risk-adjusted returns through investments in debt securities, had a return on investment of positive 0.5 percent for fiscal year 2013. This return was (1.2) percentage points unfavorable to the benchmark of positive 1.7 percent for the Barclays Capital Global Aggregate Index.
- **Fixed Income – Inflation-Linked**, or Treasury Inflation Protected Securities (TIPS), which seeks to generate long-term risk-adjusted returns through investments in inflation-linked securities and to provide protection against unanticipated inflation, had a return on investment of negative (3.6) percent for fiscal year 2013. This return compared (0.2) percentage points unfavorable to the benchmark of negative (3.4) percent for the Barclays Capital Global Inflation-Linked Bond Index.
- **Commodities**, which seek to enhance long-term risk-adjusted returns by preserving investment capital, lowering overall volatility, and providing a hedge against unanticipated inflation, had a return on investment of negative (4.4) percent for fiscal year 2013. This return compared (1.4) percentage points unfavorable to the benchmark of negative (3.0) percent for a 50/50 blend of the Dow Jones UBS Commodity Index and the Goldman Sachs Commodity Index.
- **Real Estate**, which seeks to generate attractive risk-adjusted returns by providing stable current income, preserving investment capital, and reducing volatility by providing a hedge against unanticipated inflation, had a return on investment of positive 13.8 percent for fiscal year 2013. This return compared 4.1 percentage points favorable to the benchmark of positive 9.7 percent for the NCREIF Open End Diversified Core Equity Index.
- **Absolute Return**, which seeks to enhance the long-term risk-adjusted returns by providing diversification benefits, while preserving capital and reducing volatility, had a return on investment of positive 6.9 percent for fiscal year 2013. This return compared (0.3) percentage points unfavorable to the benchmark of positive 7.2 percent for the HFRI Fund of Funds Composite Index.
- **Risk Parity**, which seeks to create risk-balance that, is capable of delivering consistent and high risk-adjusted returns in several macro-economic environments, had a return on investment of negative (0.4) percent for fiscal year 2013. This return compared (11.1) percentage points unfavorable to the benchmark of positive 10.7 percent for the blended benchmark of the MSCI ACWI IMI Index (equities – 60 percent) and Barclays Global Aggregate Bond Index (40 percent).

Management's Discussion and Analysis, continued

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. A pension fund is fully funded when it has enough money in reserve to meet all expected future obligations to participants. The goal for the defined benefit retirement plans is to make progress toward achieving full funding.

The funded ratios of the defined benefit pension plans administered by INPRS as of the latest actuarial valuations were as follows:

Historical Trends		
	June 30, 2013	June 30, 2012
PERF	80.2%	76.6%
TRF 1996 Account	93.8	90.7
1977 Fund	95.2	91.9
JRS	84.1	59.4
EG&C Plan	83.5	67.1
PARF	78.7	49.0
LEDB Plan	79.8	75.0
Total INPRS (Excluding TRF Pre-1996 Account¹)	85.3%	81.2%
TRF Pre-1996 Account ¹	31.8	30.1
Total INPRS (Including TRF Pre-1996 Account¹)	64.5%	60.8%

¹ Pay-As-You-Go Plan

An analysis of the funding progress, employer contributions and a discussion of actuarial assumptions and methods is set forth in Note 10 and in the Required Supplementary Information of the Financial Section. For additional actuarial-related information, refer to the Actuarial Section of the CAFR.

Indiana Public Retirement System



Statement of Fiduciary Net Position

As of June 30, 2013 (with Comparative Totals for the Year Ended June 30, 2012)¹

(dollars in thousands)

	Pension Trust Funds							
	Public Employees Retirement Fund	Teachers' Retirement Fund	1977 Police Officers' and Firefighters' Pension and Disability Fund	Judges' Retirement System	State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	Prosecuting Attorneys' Retirement Fund	Legislators' Defined Benefit Plan	Legislators' Defined Contribution Plan
Assets								
Cash	\$ 6,129	\$ 2,703	\$ 1,278	\$ 13	\$ 11	\$ -	\$ 1	\$ 14
Receivables:								
Contributions Receivable	9,161	6,850	3,700	-	-	-	-	-
Miscellaneous Receivables	862	346	65	50	-	44	-	935
Investments Receivable	1,106,242	809,584	433,494	39,606	10,228	5,048	352	1,952
Interest and Dividends	43,340	33,242	13,025	1,190	307	152	11	69
Due From Other Funds	5,669	1,103	59	5	1	-	-	-
Total Receivables	1,165,274	851,125	450,343	40,851	10,536	5,244	363	2,956
Investments:								
Short Term Investments	-	-	-	-	-	-	-	-
Pooled Unit Trust Assets:								
Repurchase Agreements	13,294	9,281	5,511	504	130	64	4	12
Short Term Investments	665,202	488,496	245,323	22,414	5,788	2,857	199	994
Fixed Income	5,627,991	4,338,409	1,465,065	133,855	34,566	17,060	1,190	6,168
Equities	3,010,773	2,534,631	992,056	90,639	23,406	11,552	806	14,204
Other Investments	3,619,640	2,527,811	1,500,262	137,081	35,399	17,472	1,219	3,345
Securities Lending Collateral	497,524	347,371	206,268	18,846	4,867	2,402	168	458
Total Investments	13,434,424	10,245,999	4,414,485	403,339	104,156	51,407	3,586	25,181
Other Assets	304	-	-	-	-	-	-	-
Gross Capitalized Assets	13,776	4,553	527	21	20	15	1	3
Less: Accumulated Depreciation and Amortization	(4,820)	(1,732)	(188)	(7)	(7)	(5)	(1)	(2)
Net Capitalized Assets	8,956	2,821	339	14	13	10	-	1
Total Assets	14,615,087	11,102,648	4,866,445	444,217	114,716	56,661	3,950	28,152
Liabilities								
Accounts Payable	5,001	896	62	4	3	1	-	1
Retirement Benefits Payable	775	86,899	7	10	-	-	1	-
Salaries and Benefits Payable	2,589	-	-	-	-	-	-	-
Investments Payable	1,307,756	957,994	509,623	46,561	12,024	5,934	415	2,297
Securities Lending Obligations	497,525	347,369	206,268	18,846	4,867	2,402	169	458
Securities Sold Under Agreement to Repurchase	79,668	55,626	33,029	3,018	779	385	28	73
Due to Other Funds	1,172	4,985	595	26	24	19	-	1
Total Liabilities	1,894,486	1,453,769	749,584	68,465	17,697	8,741	613	2,830
Net Position Restricted for:								
Pension Benefits ²	12,720,601	9,648,879	4,116,861	375,752	97,019	47,920	3,337	25,322
Future Death Benefits	-	-	-	-	-	-	-	-
Local Units	-	-	-	-	-	-	-	-
Total Net Position Restricted	\$ 12,720,601	\$ 9,648,879	\$ 4,116,861	\$ 375,752	\$ 97,019	\$ 47,920	\$ 3,337	\$ 25,322

¹The accompanying notes are an integral part of the financial statements. Please see the Notes to the Financial Statements for further details.

²A schedule of funding progress for each plan is presented in the Required Supplementary Information.

Indiana Public Retirement System



Statement of Fiduciary Net Position, continued As of June 30, 2013 (with Comparative Totals for the Year Ended June 30, 2012)¹

(dollars in thousands)

	Other Employment Benefit Trust Funds		Investment Trust Fund			
	State Employees' Death Benefit Fund	Public Safety Officers' Special Death Benefit Fund	Pension Relief Fund		2013 Totals	2012 Totals
Assets						
Cash	\$ -	\$ 92	\$ 1,054		\$ 11,295	\$ 28,134
Receivables:						
Contributions Receivable	-	-	-		19,711	200,964
Miscellaneous Receivables	-	-	-		2,302	1,213
Investments Receivable	-	-	-		2,406,506	1,696,567
Interest and Dividends	54	34	-		91,424	86,947
Due From Other Funds	-	-	-		6,837	7,638
Total Receivables	54	34	-		2,526,780	1,993,329
Investments:						
Short Term Investments	-	-	35,587		35,587	14,117
Pooled Unit Trust Assets:						
Repurchase Agreements	-	-	-		28,800	97,490
Short Term Investments	230	146	-		1,431,649	2,479,447
Fixed Income	7,402	4,683	-		11,636,389	11,746,258
Equities	-	-	-		6,678,067	6,207,694
Other Investments	-	-	-		7,842,229	6,219,243
Securities Lending Collateral	1,619	1,024	-		1,080,547	897,731
Total Investments	9,251	5,853	35,587		28,733,268	27,661,980
Other Assets	-	-	-		304	125
Gross Capitalized Assets	-	-	2		18,918	15,345
Less: Accumulated Depreciation and Amortization	-	-	(2)		(6,764)	(4,416)
Net Capitalized Assets	-	-	-		12,154	10,929
Total Assets	9,305	5,979	36,641		31,283,801	29,694,497
Liabilities						
Accounts Payable	-	300	9		6,277	6,263
Retirement Benefits Payable	-	-	-		87,692	959
Salaries and Benefits Payable	-	-	-		2,589	2,116
Investments Payable	3	2	-		2,842,609	3,067,466
Securities Lending Obligations	1,619	1,024	-		1,080,547	897,731
Securities Sold Under Agreement to Repurchase	-	-	-		172,606	148,198
Due to Other Funds	-	-	15		6,837	7,638
Total Liabilities	1,622	1,326	24		4,199,157	4,130,371
Net Position Restricted for:						
Pension Benefits ²	-	-	32,375		27,068,066	25,547,239
Future Death Benefits	7,683	4,653	-		12,336	12,366
Local Units	-	-	4,242		4,242	4,521
Total Net Position Restricted	\$ 7,683	\$ 4,653	\$ 36,617		\$ 27,084,644	\$ 25,564,126

¹The accompanying notes are an integral part of the financial statements. Please see the Notes to the Financial Statements for further details.

²A schedule of funding progress for each plan is presented in the Required Supplementary Information.

Indiana Public Retirement System



Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2013 (with Comparative Totals for the Year Ended June 30, 2012)¹

(dollars in thousands)

Pension Trust Funds

	Public Employees' Retirement Fund	Teachers' Retirement Fund	1977 Police Officers' and Firefighters' Pension and Disability Fund	Judges' Retirement System	State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	Prosecuting Attorneys' Retirement Fund	Legislators' Defined Benefit Plan	Legislators' Defined Contribution Plan
Additions								
Contributions:								
Member Contributions	\$ 156,408	\$ 122,953	\$ 40,786	\$ 2,631	\$ 1,006	\$ 1,271	\$ -	\$ 1,463
Employer Contributions	455,658	1,163,794	137,111	111,419	19,740	19,443	150	-
Other Contributions	-	30,000	-	-	-	-	-	-
Total Contributions	612,066	1,316,747	177,897	114,050	20,746	20,714	150	1,463
Investment Income:								
Net Appreciation/(Depreciation) Fair Value of Investments	487,490	418,972	158,819	11,413	3,244	1,226	146	1,911
Other Net Investment Income	68,274	47,869	27,935	2,415	637	296	24	(214)
Net Interest and Dividends Income	199,248	150,797	59,730	5,054	1,346	620	51	234
Securities Lending Income	2,720	1,898	1,115	94	25	11	1	3
Total Net Investment Income	757,732	619,536	247,599	18,976	5,252	2,153	222	1,934
Less Direct Investment Expenses:								
Investment Management Fees	(58,931)	(42,118)	(23,207)	(1,967)	(523)	(238)	(20)	(70)
Securities Lending Fees	(408)	(284)	(167)	(14)	(4)	(2)	-	-
Direct Investment Expenses	(7,061)	(3,425)	(715)	(40)	(23)	(16)	(1)	(6)
Net Investment Income / (Loss)	691,332	573,709	223,510	16,955	4,702	1,897	201	1,858
Other Additions:								
Miscellaneous Income	31	10	18	5	-	-	-	42
Interfund Transfers	4,363	10,204	71	121	-	-	-	-
Total Other Additions	4,394	10,214	89	126	-	-	-	42
Total Additions	1,307,792	1,900,670	401,496	131,131	25,448	22,611	351	3,363
Deductions								
Pension and Disability Benefits	722,585	1,287,439	95,935	17,526	4,799	2,040	365	-
Special Death Benefits	-	-	794	-	-	-	-	-
Distribution of Contributions and Interest	68,775	22,664	3,074	53	37	195	-	3,616
Pension Relief Distributions	-	-	-	-	-	-	-	-
Local Unit Withdrawals	-	-	-	-	-	-	-	-
Administrative Expenses	20,346	10,127	1,312	102	99	128	31	4
Project Expenses	8,835	4,281	533	24	22	17	3	-
Interfund Transfers	10,405	4,339	-	-	15	-	-	-
Total Deductions	830,946	1,328,850	101,648	17,705	4,972	2,380	399	3,620
Net Increase / (Decrease)	476,846	571,820	299,848	113,426	20,476	20,231	(48)	(257)
Beginning Net Position Restricted for:								
Pension Benefits	12,243,755	9,077,059	3,817,013	262,326	76,543	27,689	3,385	25,579
Future Death Benefits	-	-	-	-	-	-	-	-
Local Units	-	-	-	-	-	-	-	-
Ending Net Position Restricted	\$ 12,720,601	\$ 9,648,879	\$ 4,116,861	\$ 375,752	\$ 97,019	\$ 47,920	\$ 3,337	\$ 25,322

¹The accompanying notes are an integral part of the financial statements. Please see the Notes to the Financial Statements for further details.

Indiana Public Retirement System



Statement of Changes in Fiduciary Net Position, continued For the Year Ended June 30, 2013 (with Comparative Totals for the Year Ended June 30, 2012)¹

(dollars in thousands)

	Other Employment Benefit Trust Funds		Investment Trust Fund		
	State Employees' Death Benefit Fund	Public Safety Officers' Special Death Benefit Fund	Pension Relief Fund	2013 Totals	2012 Totals
Additions					
Contributions:					
Member Contributions	\$ -	\$ -	\$ -	\$ 326,518	\$ 335,548
Employer Contributions	-	-	180,000	2,087,315	1,605,839
Other Contributions	-	544	58,588	89,132	89,763
Total Contributions	-	544	238,588	2,502,965	2,031,150
Investment Income:					
Net Appreciation/(Depreciation)	(148)	(96)	-	1,082,977	(281,606)
Fair Value of Investments	-	-	-	147,236	94,144
Other Net Investment Income	-	-	-	417,495	471,039
Net Interest and Dividends Income	208	128	79	5,870	7,629
Securities Lending Income	2	1	-	1,653,578	291,206
Total Net Investment Income	62	33	79		
Less Direct Investment Expenses:					
Investment Management Fees	(12)	(7)	-	(127,093)	(106,484)
Securities Lending Fees	-	-	-	(879)	(631)
Direct Investment Expenses	-	-	(6)	(11,293)	(11,290)
Net Investment Income / (Loss)	50	26	73	1,514,313	172,801
Other Additions:					
Miscellaneous Income	-	-	-	106	100
Interfund Transfers	-	-	-	14,759	13,025
Total Other Additions	-	-	-	14,865	13,125
Total Additions	50	570	238,661	4,032,143	2,217,076
Deductions					
Pension and Disability Benefits	-	-	-	2,130,689	2,033,911
Special Death Benefits	50	600	300	1,744	938
Distribution of Contributions and Interest	-	-	-	98,414	95,431
Pension Relief Distributions	-	-	219,814	219,814	224,220
Local Unit Withdrawals	-	-	284	284	250
Administrative Expenses	-	-	44	32,193	31,489
Project Expenses	-	-	13	13,728	9,359
Interfund Transfers	-	-	-	14,759	13,025
Total Deductions	50	600	220,455	2,511,625	2,408,623
Net Increase / (Decrease)	-	(30)	18,206	1,520,518	(191,547)
Beginning Net Position Restricted for:					
Pension Benefits	-	-	13,890	25,547,239	25,739,801
Future Death Benefits	7,683	4,683	-	12,366	11,105
Local Units	-	-	4,521	4,521	4,767
Ending Net Position Restricted	\$ 7,683	\$ 4,653	\$ 36,617	\$ 27,084,644	\$ 25,564,126

¹The accompanying notes are an integral part of the financial statements. Please see the Notes to the Financial Statements for further details.

Note 1. Description of Retirement Plans

(A) Public Employees' Retirement Fund

Plan Description

The Public Employees' Retirement Fund (PERF) is an agent multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to full-time employees of the state of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions means a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two (2) tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' ASA Only Plan (PERF ASA Only Plan). Details of the PERF Hybrid Plan and PERF ASA Only Plan are described below.

The PERF ASA Only Plan was effective March 1, 2013. For the first time, newly hired full-time employees of the state of Indiana can now elect to participate in either the PERF Hybrid Plan or the PERF ASA Only Plan.

Membership

PERF acts as a common investment and administrative agent for units of state and local governments in Indiana and covers many officers and employees of municipalities of the state (referred to as political subdivisions), including counties, cities, towns, townships, libraries, and school corporations. The political subdivisions become participants by ordinance or resolution of the governing body, which specifies the classifications of employees who will become members of the plan. The ordinance or resolution is filed with and approved by INPRS. In order to be a member, employees hired after June 30, 1982, except employees of a participating school corporation, must occupy positions normally requiring performance of service of more than 1,000 hours during a year. Effective July 1, 2008, members who have at least one (1) year of service in both PERF and TRF, have the option of choosing from which of these funds they would like to retire.

As of June 30, 2013, there were 1,120 participating political subdivisions and 17 State-related participating employers. As of June 30, 2013, PERF membership consisted of:

	Public Employees' Retirement Fund	
	Hybrid	ASA Only
Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	75,950	-
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	23,504	-
Terminated Non-Vested Members Entitled To a Distribution of ASA Balance	51,057	-
Active Members: Vested and Non-Vested	137,867	70
Total	288,378	70
Total Covered Payroll for Active Members (dollars in thousands)	\$4,766,910	

Notes to the Financial Statements, continued *June 30, 2013*

PERF Hybrid Plan

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.3, and IC 5-10.5. There are two (2) aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the Annuity Savings Account (ASA) that supplements the defined benefit at retirement.

Retirement Benefits

The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's Annuity Savings Account. The employer defined pension benefit contribution rate is based on an actuarial valuation and is adopted by the INPRS Board of Trustees in accordance with IC 5-10.2-2-11. The Annuity Savings Account consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.2-3-2, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. A member's contributions and interest credits belong to the member and do not belong to the state or political subdivision.

Investments in the members' Annuity Savings Accounts are individually directed and controlled by plan participants who direct the investment of their account balances among the following eight (8) investment options with varying degrees of risk and return potential.

- **Guaranteed Fund** – This fund's objective is to provide stability of principal and a competitive interest rate. The interest rate is set by the INPRS Board of Trustees each year and is guaranteed for the fiscal year. Market risk is assumed by the Fund.
- **Large Cap Equity Index Fund** – This fund's objective is to seek investment growth/capital appreciation through passive investment in the stocks of the 500 largest U.S. companies. Market risk is assumed by the member.
- **Small/Mid Cap Equity Fund** – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of small- and mid-sized U.S. companies. Market risk is assumed by the member.
- **International Equity Fund** – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of non-U.S. companies in both developed and emerging markets. Market risk is assumed by the member.
- **Fixed Income Fund** – This fund's objective is to seek total return, consisting of income and capital appreciation. Market risk is assumed by the member.
- **Inflation-Linked Fixed Income Fund** – This fund's objective is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Principal and interest payments are adjusted in response to changes in inflation. Market risk is assumed by the member.
- **Money Market Fund** – This fund's objective is to provide a market rate of return consistent with the preservation of capital through a shorter maturity, high quality portfolio. Market risk is assumed by the member.
- **Target Date Funds** – The Funds are designed to seek an appropriate amount of total return, commensurate with risk, given the specific time horizon of each Fund. The Target Date Funds provide participants with a one-stop shop for

Notes to the Financial Statements, continued *June 30, 2013*

investing. Participants simply choose the Fund most appropriate for them based on the year in which they plan to withdraw their money (usually their retirement year). Once a participant selects the appropriate Fund, the underlying asset allocation automatically adjusts over time. Market risk is assumed by the member.

Members may make changes to their investment directions daily. Investments of the plan are reported at fair market value.

The pension benefit vests after 10 years of creditable service. The vesting period is eight (8) years for certain elected officials. Members are immediately vested in their Annuity Savings Account. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's Annuity Savings Account, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their Annuity Savings Account and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the Annuity Savings Account. A non-vested member who terminates employment prior to retirement may withdraw his/her Annuity Savings Account after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the 20 calendar quarters of creditable service in which the member's annual compensation was the highest. All 20 calendar quarters do not have to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's salary.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2013; however, eligible members did receive a one-time check (a.k.a. 13th check) in September 2012. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before January 1, 2012, and who was entitled

Notes to the Financial Statements, continued *June 30, 2013*

to receive a monthly benefit on July 1, 2012.

Disability and Survivor Benefits

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

PERF ASA Only Plan

The PERF ASA Only Plan was established by the Indiana Legislature in 2011, and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12, and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. PERF ASA Only Plan members are full-time employees of the state of Indiana (as defined in IC 5-10.3-7-1(d)), who are in a position that would otherwise be eligible for membership in the PERF Hybrid Plan and who elect to become members of the PERF ASA Only Plan. The PERF ASA Only Plan membership does not include individuals who: (1) before March 1, 2013, are or were members of the PERF Hybrid Plan or (2) on or after March 1, 2013, do not elect to participate in the PERF ASA Only Plan. Any government agency that pays employees through the Auditor of the State is a mandatory participant in the ASA Only Plan and must offer eligible employees the ASA Only Plan option. Quasi-government agencies and state educational institutions may choose to offer the ASA Only Plan as an option to their employees.

The PERF ASA Only Plan maintains an Annuity Savings Account for each member. Each member's account consists of two (2) subaccounts within the Annuity Savings Account structure. There is a member contribution subaccount (which is the same as the Annuity Savings Account in the PERF Hybrid Plan) and an employer contribution subaccount.

The member's contribution subaccount consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.3-12-23 plus the interest/earnings or losses credited to the member's contribution subaccount. The state shall pay the member's contributions on behalf of the member. The employer contribution subaccount consists of the employer's contributions and the earnings on the employer's contributions. The employer contribution rate is set by INPRS Board of Trustees in accordance with IC 5-10.2-2-11.

The PERF ASA Only Plan allows members to actively participate in managing their retirement benefits through self-directed investment options. All contributions made to a member's account (member contribution subaccount and employer contribution

Notes to the Financial Statements, continued *June 30, 2013*

subaccount) are invested as a combined total according to the member's investment elections. The members can direct their investments among the following aforementioned eight (8) investment options: Large Cap Equity Index Fund, Small/Mid Cap Equity Fund, International Equity Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Stable Value Fund, and Target Date Funds.

Members may make changes to their investment directions daily. Investments of the plan are reported at fair market value.

A member is immediately vested in the member contribution subaccount. In order to receive contributions and earnings from the employer contribution subaccount, a member must meet vesting requirements (full years of participation) to qualify for a distribution. The vesting schedule is as follows:

- One (1) year of participation = 20 percent
- Two (2) years of participation = 40 percent
- Three (3) years of participation = 60 percent
- Four (4) years of participation = 80 percent
- Five (5) years of participation = 100 percent

A member who terminates service in a covered position is entitled to withdraw total amounts in the member contribution subaccount. In addition, the member is entitled to withdraw amounts in the employer contribution subaccount to the extent the member is vested in this account. The member must be separated from employment for at least 30 days before the member may take a withdrawal from the member's account. The amount available for withdrawal is the fair value of the participant's account on the processing date. The withdrawal amount can be paid in a lump sum, a direct rollover to another eligible retirement plan, or if the member has attained normal retirement age and met other criteria established by the INPRS Board of Trustees as a monthly annuity.

If a member becomes disabled while in active service, subject to the member providing proof of the member's qualification for social security disability benefits to the Board of Trustees, a member may withdraw total amounts in the member contribution subaccount. To the extent that the member is vested, the member may make a withdrawal from the member's employer subaccount. The withdrawal amount can be paid in a lump sum, a direct rollover to another eligible retirement plan, or a monthly annuity if the member has attained normal retirement age and met other criteria established by the INPRS Board of Trustees.

If a member dies while in active service or after terminating service in a position covered by the Plan, but before withdrawing the member's account, all of the member's contribution subaccount, and to the extent that the member is vested, the employer contribution subaccount, will be paid to the beneficiary or beneficiaries designated by the member. The amount available for payment is the fair value of the participant's account. The beneficiary may elect to have member's account paid as a lump sum, a direct rollover to another eligible retirement plan, or as a monthly annuity in accordance with the rules of the INPRS Board of Trustees. The monthly annuity is an option only on or after the beneficiary attains normal retirement age and meets other criteria established by the INPRS Board of Trustees. If a member dies in the line of duty while in active service, the designated beneficiary or beneficiaries or surviving spouse or dependents, are entitled to payment of the member's account as described above. In addition,

Notes to the Financial Statements, continued June 30, 2013

if the member was not fully vested in the employer contribution subaccount, the account is deemed to be fully vested for purposes of withdrawal.

(B) Teachers' Retirement Fund

Plan Description

The Indiana State Teachers' Retirement Fund (TRF) is a cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to public school teachers and administrators, regularly employed licensed teachers at certain state universities and other educational institutions, and certain INPRS employees hired by TRF before July 1, 2011. There are two (2) aspects to the TRF defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the TRF benefit structure is the Annuity Savings Account that supplements the defined benefit at retirement.

TRF was established by the Indiana General Assembly in 1921. In 1955, TRF was designed as a pay-as-you-go defined benefit retirement plan. In 1995, legislation was passed that closed the pay-as-you-go plan (named the TRF Pre-1996 Account) to newly hired members and created a new account (named the TRF 1996 Account) for all members hired after June 30, 1995. TRF is governed by the INPRS Board of Trustees in accordance with IC 5-10.2, IC 5-10.4, and IC 5-10.5.

Membership

Membership in TRF is required for all legally qualified and regularly employed licensed teachers who serve in the public schools of Indiana, teachers employed by the state at state institutions, and certain INPRS employees. Additionally, faculty members and professional employees at Ball State University, Vincennes University, and the University of Southern Indiana have the option of selecting membership in the Fund or the alternate University Plan. Membership in TRF is optional for teachers employed by charter schools, employees and officials of the Indiana State Board of Education who were Indiana licensed teachers prior to their employment with the Board, and teachers employed by special management teams as defined under IC 20-31 et Seq.

As of June 30, 2013, the number of participating employers was 369. As of June 30, 2013, TRF membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	53,010
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	6,417
Terminated Non-Vested Members Entitled To a Distribution of ASA Balance	11,693
Active Members: Vested and Non-Vested	70,414
Total	141,534
Total Covered Payroll for Active Members (dollars in thousands)	\$ 4,124,368

Retirement Benefits

The TRF retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's Annuity Savings Account. The employer contribution for the TRF 1996 Account pension plan is based on an actuarial valuation and is adopted by the INPRS Board of Trustees in accordance with IC 5-10.2-2-11 and IC 5-10.4-2-4. The Annuity Savings Account consists of the member's contributions, set by statute at three (3) percent of compensation as

Notes to the Financial Statements, continued *June 30, 2013*

defined by IC 5-10.2-3-2, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. A member's contributions and interest credits belong to the member.

Investments in the members' annuity savings accounts are individually directed and controlled by plan participants who direct the investment of their account balances among the following seven (7) investment options with varying degrees of risk and return potential.

- **Guaranteed Fund** -- This fund's objective is to provide stability of principal and a competitive interest rate. The interest rate is set by the INPRS Board of Trustees each year and is guaranteed for the fiscal year. Market risk is assumed by the Fund.
- **Large Cap Equity Index Fund** – This fund's objective is to seek investment growth/capital appreciation through passive investment in the stocks of the 500 largest U.S. companies. Market risk is assumed by the member.
- **Small/Mid Cap Equity Fund** – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of small- and mid-sized U.S. companies. Market risk is assumed by the member.
- **International Equity Fund** – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of non-U.S. companies in both developed and emerging markets. Market risk is assumed by the member.
- **Fixed Income Fund** – This fund's objective is to seek total return, consisting of income and capital appreciation. Market risk is assumed by the member.
- **Inflation-Linked Fixed Income Fund** – This fund's objective is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Principal and interest payments are adjusted in response to changes in inflation. Market risk is assumed by the member.
- **Target Date Funds** – The Funds are designed to seek an appropriate amount of total return, commensurate with risk, given the specific time horizon of each Fund. The Target Date Funds provide participants with a one-stop shop for investing. Participants simply choose the Fund most appropriate for them based on the year in which they plan to withdraw their money (usually their retirement year). Once a participant selects the appropriate Fund, the underlying asset allocation automatically adjusts over time. Market risk is assumed by the member.

Members may make changes to their investment directions daily. Investments of the plan are reported at fair market value.

The pension benefit vests after 10 years of creditable service. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's Annuity Savings Account, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested TRF members leaving a covered position, who wait 30 days after termination, may withdraw their Annuity Savings Account and will not forfeit creditable service or a future retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the Annuity Savings Account. A non-vested member who terminates employment prior to retirement may withdraw his/her Annuity Savings Account after 30 days, but by doing so forfeit his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

Notes to the Financial Statements, continued *June 30, 2013*

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. Generally, the average annual compensation in this calculation is the average annual compensation for the five (5) years of service before retirement in which the member's annual compensation was the highest. For TRF members who take a leave of absence to serve as an elected official, the highest one (1) year of salary is used. In order for a year to be included in the five (5) years, the member must have received for the year credit under IC 5-10.4-4-2 for at least one-half (1/2) year of service. The five (5) years do not have to be continuous. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's salary.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2013; however, eligible members did receive a one-time check (a.k.a. 13th check) in September 2012. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before January 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2012.

Disability and Survivor Benefits

TRF also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits, may retire for the duration of the disability if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement.

Members are eligible for a classroom disability benefit once they have earned five (5) years of service, have a temporary or permanent disability that continues for six (6) months or more, and applies for classroom disability benefits within one (1) year of the disability. Classroom disability refers to a medically confirmed inability to continue classroom teaching due to a mental or physical condition that is not necessarily of sufficient severity to meet social security disability guidelines. The eligible members may receive \$125 per month plus \$5 for each additional year of service credit over five (5) years.

Notes to the Financial Statements, continued June 30, 2013

Upon the death in service of a member with 15 or more years of creditable service, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after March 31, 1990, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

(C) 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) is a cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to all full-time police officers and firefighters who are hired (or rehired) after April 30, 1977. The 1977 Fund was established in 1977 and is governed by IC 36-8-8 to provide coverage to full-time sworn officers of a police force of an Indiana city or town and full-time firefighters employed by an Indiana city, town, township or county.

Membership

As of June 30, 2013, the number of participating employers totaled 161. As of June 30, 2013, the 1977 Fund membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	3,491
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	129
Terminated Non-Vested Members Entitled To a Distribution of Contributions	796
Active Members: Vested and Non-Vested	13,287
Total	17,703
Total Covered Payroll for Active Members (dollars in thousands)	\$ 706,603

A member is required by statute to contribute six (6) percent of a first class officer's or firefighter's salary for the term of his/her employment up to 32 years. The accumulated value of the member's contribution, including interest, may be withdrawn if the member terminates employment prior to completing 20 years of service. The actuary determines employer contributions, subject to approval by the INPRS Board of Trustees.

Retirement Benefits

A member vests after 20 years of service. If the member retires at or after the age of 52 with 20 years of service, the benefit is equal to 50 percent of the salary of a first class officer, as reported by the employer in the year the 1977 Fund member ended service plus one (1) percent of that salary for each six (6) months of active service over 20 years to a maximum of 12 years. At age 50 and with 20 years of service, a member may elect to receive a reduced benefit by a factor established by the fund's actuary (IC 36-8-8-11).

Notes to the Financial Statements, continued *June 30, 2013*

The monthly pension benefits for members in pay status may be increased annually in accordance with the cost of living adjustment (COLA) statute (IC 36-8-8-15). A member is entitled to an annual increase in the member's benefit based on the percentage increase in the Consumer Price Index (January-March); however, the maximum increase is 3.0 percent. There was a COLA increase of 2.8 percent effective July 1, 2012.

Disability and Survivor Benefits

The 1977 Fund also provides disability and survivor benefits. An active member may file an application for disability benefits. A determination is then made by the local pension board, and reviewed by the INPRS Board of Trustees, as to whether the member has a covered impairment and whether the impairment was incurred in the line of duty or not. The calculation for disability benefits is based on when the member was first hired, the type of impairment and other factors. In addition, the heirs or estate of a fund member may be entitled to receive \$12,000 upon the member's death.

If a member dies while receiving retirement or disability benefits, there are provisions for the surviving spouse and child(ren) to receive a portion of the benefits. The member's surviving spouse is entitled to a monthly benefit equal to 60 percent of the member's monthly benefit during the spouse's lifetime. Each of the member's surviving child(ren) is entitled to a monthly benefit equal to 20 percent of the member's monthly benefit until the age of 18, or age 23, if a full-time student. If there is no eligible surviving spouse or child(ren), a dependent parent(s) may receive 50 percent of the member's monthly benefit during their lifetime.

(D) Judges' Retirement System

Plan Description

The Judges' Retirement System (JRS) is a single-employer defined benefit plan established to provide retirement, disability, and survivor benefits to judges and magistrates. JRS was established in 1953, and is governed through the INPRS Board of Trustees by IC 33-38-6, IC 33-38-7 (judges beginning service before September 1, 1985) and IC 33-38-8 (judges beginning service after August 31, 1985). Coverage is for any person who has served, is serving, or shall serve, as a regular judge or justice of the (1) Supreme Court of the state of Indiana, (2) Court of Appeals, (3) Indiana Tax Court, (4) Circuit Court of a Judicial Circuit, or (5) county courts including: Superior, Criminal, Probate, Juvenile, Municipal and County.

Membership

The Judges' Retirement System consists of two plans (the 1977 System and the 1985 System). The 1977 System includes all individuals who began service as a judge before September 1, 1985, unless the individual, within twenty days after becoming a judge, filed an irrevocable election not to participate in the 1977 System. The 1985 System covers all individuals who: (1) began service as a judge after August 31, 1985; and (2) are not participants in the 1977 System. Beginning January 1, 2011, full-time magistrates who were serving on July 1, 2010, may elect to be members of the 1985 System. The 1985 System is for all new judges, and beginning January 1, 2011, all new full-time magistrates (IC 33-38-8-10).

Notes to the Financial Statements, continued June 30, 2013

As of June 30, 2013, the Judges' Retirement System membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	321
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	67
Terminated Non-Vested Members Entitled To a Distribution of Contributions	32
Active Members: Vested and Non-Vested	365
Total	785
Total Covered Payroll for Active Members (dollars in thousands)	\$ 46,967

Member contributions are established by statute at six (6) percent of compensation as defined by IC 33-38-8-11, which is deducted from the member's salary and remitted by the Auditor of State or the county auditor to the fund. The state of Indiana may elect to pay the contribution on behalf of the member. After a member has contributed to the fund for 22 years, the member is not required to make any additional contributions to the fund.

Employer contributions are actuarially determined and approved by the INPRS Board of Trustees and by the Indiana General Assembly as biennial appropriations from the state's General Fund. IC 33-38-6-17 provides that this appropriation include only funds sufficient to cover the aggregate liability of the fund for benefits to the end of the biennium on an actuarially funded basis. The statute also provides for remittance of docket fees and court fees which are considered employer contributions.

Retirement Benefits

A member vests after eight (8) years of creditable service. Judges who retire at or after age 65 with eight (8) years of creditable service (or are at least 55 years of age and the participant's age in years plus the participant's years of service total 85 or more) are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated in accordance with statute.

The annual retirement benefit for a participant equals the product of the salary that was paid to the participant at the time of separation from service, multiplied by a percentage for years of service as defined in the statute. Applicable salary for participants in the 1985 Judges' System is defined in IC 33-38-8-14(e). The pension benefit for participants of the 1977 Judges' System is based on the salary being paid for the office that the participant held at the time of separation from service [IC 33-38-7-11(d)]. The statute provides for the percentage to be prorated for partial years of service. If the annual retirement benefit of a participant who began service as a judge before July 1, 1977, as computed per IC 33-38-7-11, is less than the benefit the participant would have received under IC 33-38-6 as in effect on June 30, 1977, the participant is entitled to receive the greater amount as the participant's annual retirement benefit.

A reduced amount is paid for early retirements that may be selected upon attainment of age 62. The participant's benefit is reduced by 0.1 percent for each month the member's age on the date the participant begins receiving a retirement benefit precedes the participant's 65th birthday.

The monthly pension benefits of the retired judges that were former participants in the 1977 System receive benefit increases whenever the salary of the position the retiree held at separation from service increases. Before fiscal year 2011, benefits of

Notes to the Financial Statements, continued June 30, 2013

judges who are members of the 1985 System were tied to the salary of the position at the time the participant separated from service and did not increase if the salary of the position increased after the participant separated from service. Before fiscal year 2011, the General Assembly provided cost of living adjustment (COLA) increases to participants in the 1985 System on an ad hoc basis. Beginning after June 30, 2010, a participant in the 1985 System receives an increase in the monthly benefit of the same percentage by which the salary of the office of the participant held at separation from service increases. The percentage increase to the monthly benefit takes effect at the same time that the salary increase takes effect (IC 33-38-8-25). There was a COLA increase of 2.2 percent effective July 1, 2012, for eligible participants in the 1977 System and 1985 System.

Disability and Survivor Benefits

There is no vesting requirement for permanent disability benefits. For both the 1977 System and the 1985 System, a participant is considered permanently disabled if the INPRS Board of Trustees receives a written certification by at least two (2) licensed and practicing physicians appointed by the INPRS Board of Trustees. A participant receiving disability benefits must be reexamined at least once a year by at least two (2) physicians appointed by the INPRS Board of Trustees.

Surviving spouses or dependent child(ren) are entitled to benefits if the participant had qualified to receive a retirement or disability benefit, or had completed at least eight (8) years of service and was in service as a judge. The minimum survivor benefit is \$12,000.

(E) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan

Plan Description

The State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan) is a single-employer defined benefit plan established to provide retirement, disability, and survivor benefits to certain employees of the (1) Indiana Department of Natural Resources, (2) Indiana Alcohol and Tobacco Commission and (3) any Indiana state excise police officer, Indiana state conservation enforcement officer, gaming agent or any gaming control officer who is engaged exclusively in the performance of law enforcement duties. The EG&C Plan was established in 1972 and is governed by IC 5-10-5.5.

Membership

As of June 30, 2013, the EG&C Plan membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	193
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	4
Terminated Non-Vested Members Entitled To a Distribution of Contributions	87
Active Members: Vested and Non-Vested	473
Total	757
Total Covered Payroll for Active Members (dollars in thousands)	\$ 26,201

Notes to the Financial Statements, continued *June 30, 2013*

Members are required by statute to contribute four (4) percent of the member's annual salary to the EG&C Plan. If a member leaves covered employment or dies before 15 years of creditable service, accumulated member contributions, plus interest as credited by the INPRS Board of Trustees, are distributed to the member, or to the designated beneficiary or the member's estate.

Retirement Benefits

Generally, pension benefits vest after 15 years of creditable service. Officers becoming participants after age 50 are vested after completion of 10 years of service. A participant is entitled to an annual pension benefit, paid in equal monthly installments beginning on the participant's normal retirement date, equal to 25 percent of the participant's average annual salary. A participant who completes more than 10 years of creditable service is entitled to receive an additional amount equal to 1.67 percent of the participant's average annual salary for each completed year of creditable service over 10 years. However, a participant's annual pension benefit may not exceed 75 percent of the participant's average annual salary.

Each participant is required to retire on or before the first day of the month following the participant's 65th birthday. However, a participant who is hired after age 50 must retire upon the earlier of: (1) the first day of the month following the participant's 65th birthday; or (2) the first day of the month following the date the participant completes 15 years of creditable service. A participant, who is at least 55 years of age and the sum of the participant's years of creditable service and age in years equals at least 85, may retire and become eligible for full retirement benefits. In addition, a participant may elect full retirement benefits at age 50 with 25 years of service. A reduced benefit is provided for early retirements that are elected upon attainment of age 45 with at least 15 years of creditable service. The monthly benefit is reduced by 0.25 percent for each full month by which the participant's early retirement date precedes the participant's 60th birthday.

Any participant who terminates service before accumulating 15 years of creditable service may become a member of the Public Employees' Retirement Fund (PERF). Upon payment of contributions and interest required by the INPRS Board of Trustees, the withdrawing participant shall be entitled to transfer creditable service to PERF.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2013; however, eligible members did receive a one-time check (a.k.a. 13th check) in September 2012. The amount of the one-time check ranged from \$125 to \$400, depending upon a member's years of service, and was for a member who retired or was disabled on or before January 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2012.

Disability and Survivor Benefits

A participant who becomes permanently or temporarily disabled from performing all suitable and available work "on the force" for which the participant is or may be capable of becoming qualified, considering reasonable accommodation to the extent required by the Americans and Disability Act, is entitled to receive a disability benefit. The amount of the disability benefit paid to a participant depends on whether the disability arose in the line of duty, the degree of impairment as determined by INPRS Board of Trustees' medical authority, and the participant's monthly salary. A participant is entitled to receive creditable service for the time the participant receives disability benefits under a state disability plan established under IC 5-10-8-7.

Notes to the Financial Statements, continued June 30, 2013

If a participant has more than 15 years of creditable service at the time of death, survivor benefits are payable to the surviving spouse, parents, or dependent children, as nominated by the participant's written direction, acknowledged, and filed with the INPRS Board of Trustees. The surviving spouse or the parent(s) is entitled to an annual survivor's allowance for life equal to 50 percent of the amount the participant would have been entitled to if he/she had retired on the date of death. If nominated and eligible, surviving unmarried minor child(ren) are entitled to an annual survivor's allowance equal to 50 percent of the amount the participant would have been entitled to if he/she had retired, divided equally between or among all nominated and eligible children. This benefit will continue until the child reaches 18 years of age or marries, whichever occurs first.

(F) Prosecuting Attorneys' Retirement Fund

Plan Description

The Prosecuting Attorneys' Retirement Fund (PARF) is a single-employer defined benefit plan established to provide retirement, disability, and survivor benefits to prosecuting attorneys. PARF was established in 1989 and is governed through the INPRS Board of Trustees by IC 33-39-7. Coverage is for individuals who: (1) serve as a prosecuting attorney or a chief deputy prosecuting attorney; or (2) serve as the executive director or assistant executive director of the Indiana Prosecuting Attorneys Council or as a state-paid deputy prosecuting attorney. These individuals' salaries are paid from the General Fund of the state of Indiana.

Membership

As of June 30, 2013, the PARF membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	95
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	83
Terminated Non-Vested Members Entitled To a Distribution of Contributions	162
Active Members: Vested and Non-Vested	210
Total	550
Total Covered Payroll for Active Members (dollars in thousands)	\$ 21,217

Members contribute six (6) percent of their salary to PARF. Members receive annual interest earnings on June 30 at a rate specified by the INPRS Board of Trustees on all amounts credited to the member as of June 30 of the preceding year in accordance with IC 33-39-7-14.

Retirement Benefits

A participant is entitled to a retirement benefit if the participant: (1) is at least age 62; (2) has at least eight (8) years of service credit; and (3) is not receiving salary for services currently performed. A member whose service ended prior to July 1, 2006 must have at least ten (10) years of service.

The retirement benefit of a participant who is at least age 65 is calculated by multiplying: (1) the highest annual salary paid to the participant before the participant's separation from service; by (2) a percentage based on the participant's years of service. The percentages range from 24 percent for eight (8) years of service to 60 percent for 22 or more years of service. If a participant is at least 62 years of age with at least eight (8) years of creditable service, a participant is entitled to receive a reduced annual

Notes to the Financial Statements, continued *June 30, 2013*

retirement benefit that equals the benefit, as calculated above, reduced by 0.25 percent per month for each month the participant retires prior to age 65.

In addition, a PARF participant is a member of PERF. A PARF participant's retirement benefit is reduced by the amount of the employer-financed pension benefit that would be payable to the participant had the participant retired from PERF on the date of the participant's retirement from the fund. However, the benefits payable to a participant from the fund are not reduced by any payments made to the participant from the participant's PERF Annuity Savings Account. The employer may elect to make the contributions on behalf of the member.

Disability and Survivor Benefits

PARF also provides disability and survivor benefits. A participant who has at least five (5) years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the participant has qualified for social security disability benefits and has furnished proof of the qualification. The amount of the annual benefit payable to a participant for disability benefits is equal to the product of the annual salary that was paid to the participant at the time of separation from service multiplied by a percentage based on the participant's years of service. The percentages range from 40 percent for 5 to 10 years of service to 50 percent for 20 or more years of service. These benefits are reduced by any benefits payable to the participant from PERF.

The surviving spouse or designated beneficiary of a participant is entitled to a benefit if, on the date of the participant's death, the participant: (1) was receiving benefits; (2) has completed at least eight (8) years of service and was in service as a prosecuting attorney or chief deputy prosecuting attorney, executive director or assistant executive director of the Indiana Prosecuting Attorneys Council, or as a state-paid deputy prosecuting attorney; or (3) had met the requirements for a disability benefit.

Regardless of the participant's age at death, the surviving spouse's benefit is equal to the greater of: (1) \$7,000 annually; or (2) 50 percent of the amount of retirement benefit the participant was drawing at the time of death, or to which the participant would have been entitled had the participant retired and begun receiving retirement benefits on the date of death; survivor benefits are not subject to reduction for early retirement. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

(G) Legislators' Retirement System

Plan Description

The Legislators' Retirement System was established in 1989 by IC 2-3.5. The retirement system is for certain members of the General Assembly of the state of Indiana as specified by the provisions of the statute.

The Legislators' Retirement System is comprised of two (2) separate and distinct plans. The Legislators' Defined Benefit Plan (LEDB Plan) (IC 2-3.5-4), a single-employer defined benefit plan, applies to members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b). The Legislators' Defined Contribution Plan (LEDC Plan) (IC 2-3.5-5) applies to: (1) members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b); (2) members of the General Assembly who are first elected or appointed after April 30, 1989; and (3) members of the General

Notes to the Financial Statements, continued June 30, 2013

Assembly who: (a) served before April 30, 1989; (b) were not serving on April 20, 1989; and (c) are subsequently reelected or reappointed to the General Assembly.

Membership

As of June 30, 2013, the Legislators' Retirement System membership consisted of:

	Defined Benefit Plan	Legislators' Defined Contribution Plan
Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	68	-
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	9	-
Terminated Non-Vested Members Entitled To a Distribution of Contributions	-	58
Active Members: Vested and Non-Vested	24	167
Total	101	225

Legislators' Defined Benefit Plan

The LEDB Plan provides retirement, disability and survivor benefits. The LEDB Plan is closed to new entrants, as members of the General Assembly who began service after April 30, 1989, are not members of this plan.

A participant is entitled to an unreduced monthly retirement benefit if the participant is: (1) at least age 65 and has at least 10 years of service as a member of the General Assembly; (2) at least age 55 and whose years of service as a member of the General Assembly plus years of age equal at least 85; or (3) at least age 60 and has at least 15 years of service as a member of the General Assembly. To qualify for a monthly retirement benefit, the member: (1) must have terminated service as a member of the General Assembly; (2) has at least 10 years of service as a member of the General Assembly; and (3) is not receiving and is not entitled to receive a salary from the state.

The monthly retirement benefit is equal to the lesser of: (1) \$40 multiplied by the number of years of service in the General Assembly completed before November 8, 1989, or (2) the highest consecutive three-year average annual salary of the participant under IC 2-3-1-1 at the date the participant's service as a member of the General Assembly is terminated, divided by 12.

A participant who has reached at least age 55, has terminated service as a member of the General Assembly, has at least 10 years of service as a member of the General Assembly, and is not receiving, nor is entitled to receive, a salary from the state of Indiana, is eligible for early retirement with a reduced benefit. The reduction in the benefit is equal to: (1) 0.1 percent a month between ages 60 and 65; and (2) 5/12 percent a month between ages 55 and 60.

The monthly pension benefits for members in pay status are increased periodically as cost of living adjustments (COLA). COLA increases for the LEDB Plan are equal to the increase for the PERF Plan in accordance with IC 2-3.5-4-13 on an ad hoc basis and are generally based on date of retirement, and other eligibility factors. There was no COLA for the year ended June 30, 2013.

The LEDB Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the member has qualified for social security

Notes to the Financial Statements, continued *June 30, 2013*

disability and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. If a participant dies while receiving retirement benefits, or had completed at least 10 years of service as a member of the General Assembly, or was permanently disabled and receiving disability benefits from the system, the surviving spouse is entitled to receive survivor benefits. The benefits are for life and are equal to 50 percent of the amount of retirement benefits that the participant was receiving at the time of death or that the participant would have been entitled to receive at 55 years of age, or at the date of death, whichever is later. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

Legislators' Defined Contribution Plan

Each participant in the LEDC Plan shall make employee contributions of five (5) percent of salary received for services rendered after June 30, 1989. The employer contribution prior to January 1, 2009, was equal to 20 percent of the annual salary received by each participant for services rendered after June 30, 1989, and was appropriated from the state of Indiana General Fund. Effective January 1, 2009, the employer contribution rate is established each year by the INPRS Board of Trustees and is confirmed by the State Budget Agency. This rate, by statute, cannot exceed the total contribution rate paid that year by the state to PERF for state employees. That state contribution rate is the sum of: (1) the state's employer contribution rate for state employees, and (2) the rate the state pays on behalf of state employees to their annuity savings accounts (3.0 percent).

Investments in the members' accounts are individually directed and controlled by plan participants who direct the investment of their account balances among several investment options of varying degrees of risk and return potential. There are nine (9) investment options available to LEDC Plan members: Defined Benefit Unitized Assets, Stable Value Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Small/Mid Cap Equity Fund, Large Cap Equity Index Fund, International Equity Fund and Target Date Funds. Members may make changes to their investment directions daily. Investments of the plan are reported at fair value.

A participant of the LEDC Plan who terminates service as a member of the General Assembly is entitled to withdraw both the employee and employer contributions to the LEDC Plan. The amount available for withdrawal is the fair market value of the participant's account on the processing date. Account balances are fully vested to the participants. The withdrawn amount can be paid in a lump sum, a partial lump sum, a monthly annuity as purchased by the INPRS Board of Trustees, or a series of monthly installment payments over 60, 120, or 180 months as elected by the participant.

If a participant dies while a member of the General Assembly or after terminating service as a member, but prior to withdrawing from the LEDC Plan, the participant's account is to be paid to the beneficiary(ies) or to the survivor(s) if there is no properly designated beneficiary, or if no beneficiary survives the participant. The amount to be paid is the fair market value of the participant's account (employer and employee contributions) on the processing date.

A member of the LEDB Plan, under certain circumstances, may also be a member of the LEDC Plan.

Note 2. Description of Non-Retirement Plans

(A) State Employees' Death Benefit Fund

Indiana Code 5-10-11 established the State Employees' Death Benefit program. Under the program, a death benefit of \$50,000 is to be paid in a lump sum to the surviving spouse, or if there is no surviving spouse, to the surviving child(ren) and stepchildren (to be shared equally) of a state of Indiana employee who dies in the line of duty as defined in the statute. The children and stepchildren must also be dependent on the state employee who died in the line of duty.

The law provides that "the state may provide these benefits by purchasing group life insurance or by establishing a program of self-insurance." It was determined that a program of self-insurance would be established, and effective with the state's pay period ended October 23, 1993, the state assessed state agencies 0.1 percent of gross pay to fund this program. Due to the size of the fund and the infrequency of payments, collection of the assessment ceased in November 1999.

(B) Public Safety Officers' Special Death Benefit Fund

Indiana Code 5-10-10 established the Special Death Benefit Fund. The fund was established for the purpose of paying a lump sum death benefit of \$150,000 to the surviving spouse or child(ren) of a public safety officer (as defined by IC 5-10-10-4) or other eligible officers (as defined by IC 5-10-10-4.5) who die in the line of duty. If there is no surviving spouse or child(ren), the benefit is paid to the parent(s) in equal shares. The fund consists of bail bond fees remitted under IC 35-33-8-3.2, payments under IC 5-10-10-4.5, and investment earnings of the fund.

(C) Pension Relief Fund

The Pension Relief Fund (PR Fund) was created by the Indiana General Assembly in 1977 (IC 5-10.3-11). The purpose of the PR Fund is to give financial relief to pension funds maintained by units of local government for their police officers' and firefighters' retirement plan benefits.

Funding for the PR Fund is derived from contributions from the state of Indiana from a portion of cigarette and alcohol taxes, a portion of the state's lottery proceeds, interest earned by the Public Deposit Insurance Fund, investment income earned, and appropriations from the General Assembly.

Distributions are made from the PR Fund to units of local government in two equal installments before July 1 and before October 2 of each year. Effective January 1, 2009, the distribution is determined by an estimate of the total amount of pension, disability and survivors benefits from the 1925 Police Pension Fund (IC 36-8-6), the 1937 Firefighters' Pension Fund (IC 36-8-7), and the 1953 Police Pension Fund (IC 36-8-7.5). The estimate is prepared by the actuary on a city-by-city basis, and on a departmental basis.

As defined by IC 36-8-8-20, the PR Fund also pays a lump sum line of duty death benefit of \$150,000. As defined by IC 36-8-14.1, the benefit is paid to the following relative(s) of a fund member who dies in the line of duty: (1) to the surviving spouse; (2) if there is no surviving spouse, to the surviving child(ren) (to be shared equally); (3) if there is no surviving spouse or child(ren), to the parent(s) in equal shares.

Notes to the Financial Statements, continued June 30, 2013

In accordance with IC 5-10.3-11-6, separate accounts are maintained by INPRS for each unit of local government for amounts that have not been distributed to the local units. These amounts remain invested in the fund and are available to the units of local government at their request. As of June 30, 2013, units of local government had investments with a market value of approximately \$4.2 million on deposit in the PR Fund.

Note 3. Summary of Significant Accounting Policies

(A) Reporting Entity

Established July 1, 2011, the Indiana Public Retirement System and the governing board of trustees merged the administration of the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). INPRS is an independent body corporate and politic and is not a department or agency of the state, but is an independent instrumentality exercising essential government functions (Public Law 23-2011). For these reasons, INPRS is a pension trust fund of the state of Indiana for financial statement reporting purposes.

The financial statements presented in this report represent only those funds for which the INPRS Board of Trustees has responsibility and are not intended to present the financial position or results of operations of the state of Indiana or all of the retirement and benefit plans administered by the state.

The following funds are included in the financial statements:

- Public Employees' Retirement Fund (PERF);
- Teachers' Retirement Fund (TRF);
- 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund);
- Judges' Retirement System (JRS);
- State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan);
- Prosecuting Attorneys' Retirement Fund (PARF);
- Legislators' Defined Benefit Plan (LEDB Plan);
- Legislators' Defined Contribution Plan (LEDC Plan);
- State Employees' Death Benefit Fund;
- Public Safety Officers' Special Death Benefit Fund; and
- Pension Relief Fund (PR Fund).

See Notes 1 and 2 for descriptions of these funds.

(B) Basis of Accounting

The financial statements of INPRS have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, regardless of the timing of related cash flows. The Governmental Accounting

Notes to the Financial Statements, continued *June 30, 2013*

Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations.

The INPRS Board of Trustees administers eight (8) pension trust funds [seven (7) Defined Benefit plans and one (1) Defined Contribution plan], two (2) death benefit funds accounted for as other employee benefit trust funds, and an investment trust fund. These fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

(C) Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, the Board makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(D) Reclassifications

Certain reclassifications have been made within the fiscal year 2012 financial statements to conform with the classifications for fiscal year 2013. All such changes had no impact on fiscal year 2012 or fiscal year 2013 total net position.

(E) Contributions Receivable

Contributions are recognized as revenues when earned, pursuant to formal commitments, as well as statutory or contractual requirements. Member and employer contributions are earned on the employers' payroll date. The estimate for contributions receivable at year end was calculated utilizing member and employer contributions from the last reported payroll period.

(F) Deposit and Investment Policies and Provisions

Oversight of INPRS' assets is the responsibility of the INPRS Board of Trustees. Indiana law requires the Board to establish investment guidelines and limits on all types of investments and take other actions necessary to fulfill its duty as a fiduciary for all assets under its control. The INPRS Board of Trustees is required to diversify investments in accordance with the prudent investor standards.

At June 30, 2013, cash and investments of the funds were held by banks or trust companies under custodial agreements with INPRS. The INPRS Board of Trustees contracts with investment counsel, trust companies or banks to assist INPRS in its investment program. The Investment Policy Statement adopted by the INPRS Board of Trustees and the asset allocation approved by the Board of Trustees contains target allocations and allowable ranges that are expected to meet target rates of return over a long period of time while minimizing risk. See Note 5 for more information.

Investment purchases and sales of securities are recorded as of their trade date.

Notes to the Financial Statements, continued June 30, 2013

A summary of investments held, exclusive of the securities lending program which is fully disclosed in Note 5, is as follows:

(dollars in thousands)

Investment Type ¹	6/30/2013 Fair Value	% of Total Investments
Repurchase Agreements	\$ 28,800	0.1 %
Short Term Investments²		
Cash at Brokers	227,648	0.8
Money Market Sweep Vehicle	983,930	3.6
Commercial Paper	9,692	-
U.S. Treasury Obligations	183,284	0.7
U.S. Agencies	43,070	0.2
Non-U.S. Governments	19,612	-
Total Short Term Investments	1,467,236	5.3
Fixed Income Investments		
U.S. Governments	3,720,035	13.5
Non-U.S. Governments	1,372,552	5.0
U.S. Agencies	1,036,209	3.7
Corporate Bonds	3,579,475	12.9
Asset-Backed Securities	885,358	3.2
Commingled Fixed Income Funds	1,042,760	3.8
Total Fixed Income Investments	11,636,389	42.1
Equity Investments		
Domestic Equities	2,921,738	10.6
International Equities	2,392,959	8.6
Commingled Equity Funds	1,363,370	4.9
Total Equity Investments	6,678,067	24.1
Other Investments		
Private Equity	4,416,139	16.0
Absolute Return	1,046,869	3.8
Private Real Estate	355,020	1.3
Risk Parity	2,062,492	7.4
Derivatives	(38,291)	(0.1)
Total Other Investments	7,842,229	28.4
Total Investments	\$ 27,652,721	100.0 %

¹The amounts disclosed above will differ from the Asset Allocation Summary shown in the Investment Section. The investment type disclosure groups assets according to the security type assigned to each investment by the Custodian. The Asset Allocation summary groups assets according to the investment objective of each investment manager.

²Short Term Investments include highly liquid assets, both non-pooled and pooled, that are an integral part of the pension investments.

(G) Method Used to Value Investments

Plan investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The

Notes to the Financial Statements, continued *June 30, 2013*

market values for securities that have no quoted market price represent estimated fair value. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Many factors are considered in arriving at the value. International equities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at June 30. Asset-backed securities have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investment securities is based on appraisals plus fiscal year-to-date capital expenditures. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from a general partner of investment manager. Moreover, holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Valuation assumptions are based upon the nature of the investment and the underlying business. Additionally, valuation techniques will vary by investment type and involve a certain degree of expert judgment. Alternative investments, such as investments in private equity or real estate, are generally considered to be illiquid long-term investments. As a result of the inherent uncertainty that exists in the valuation of alternative investments the realized value, upon the sale of an asset, may differ from the fair value. Valuations are generally provided by the General Partner as of March 31, 2013 and are adjusted for cash activity to arrive at a fair value as of June 30, 2013.

(H) Pooled Investment Unit Trust Accounting

Pooled unit trust accounting involves assigning units to each fund based on the share of the fund's investment fair value to the total fair value of the consolidated investments. The per-unit value of all participating funds will increase or (decrease) based on investment earnings or (losses) and appreciation or (depreciation). Deposits and withdrawals for each fund change the number of units held by each fund. These changes are recorded at the unit value on the transaction date. Investment earnings or losses and fees for the total consolidated fund are allocated to each of the pension funds on a monthly basis using the pro rata fair value share at month end.

In accordance with GASB criteria for internal investment pools, the assets and liabilities are allocated pro rata to each of the retirement funds within the pool. This includes securities lending collateral, repurchase agreements, investment receivables, interest and dividend receivables, investment payables, securities lending obligations, securities sold under agreement to repurchase and the investment holdings.

The INPRS Board of Trustees approved unitizing investment assets in order to provide for a consolidated rate of return and to invest in a diversified manner.

The INPRS Board of Trustees unitized, into a consolidated pool, the defined benefit assets of the following retirement funds and pension systems known collectively as the Consolidated Defined Benefit Assets:

- Public Employees' Retirement Fund (PERF)
- Teachers' Retirement Fund (TRF)
- 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund)
- Judges' Retirement Fund (JRS)
- State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund (EG&C Plan)

Notes to the Financial Statements, continued June 30, 2013

Prosecuting Attorneys' Retirement Fund (PARF)

Legislators' Defined Benefit Plan (LEDB Plan)

The INPRS Board of Trustees unitized into two separate consolidated pools that include the ASA investment assets of PERF and TRF and the Defined Contribution Assets of LEDC. The first pool is comprised of the PERF Guaranteed Fund and the TRF Guaranteed Fund, also known as the Guaranteed Fund Assets. The second pool was unitized effective April 2013 and is comprised of the other ASA assets and the LEDC Defined Contribution assets.

The State Employees' Death Benefit Fund and the Public Safety Officers' Special Death Benefit Fund were consolidated into a pool effective September 2011.

A summary of the pooled unit trust investments held by unitized value and fund is as follows:

(dollars in thousands)

Trust Fund	Consolidated Defined Benefit Assets	ASA Guaranteed Fund Assets	All Other ASA/Defined Contribution Assets ¹	Death Benefit Funds	Pooled Unit Trust Investments
Public Employees' Retirement Fund	\$ 9,918,495	\$ 1,995,708	\$ 784,847	\$ -	\$ 12,699,050
Teachers' Retirement Fund	6,925,051	1,705,360	1,097,425	-	9,727,836
1977 Police Officers' and Firefighters' Pension and Disability Fund	4,112,085	-	-	-	4,112,085
Judges' Retirement System	375,710	-	-	-	375,710
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	97,022	-	-	-	97,022
Prosecuting Attorneys' Retirement Plan	47,886	-	-	-	47,886
Legislators' Defined Benefit Plan	3,340	-	-	-	3,340
Legislators' Defined Contribution Plan	9,126	-	15,249	-	24,375
State Employees' Death Benefit Fund	-	-	-	7,684	7,684
Public Safety Officers' Special Death Benefit Fund	-	-	-	4,861	4,861
Total INPRS Unitized Investments	\$ 21,488,715	\$ 3,701,068	\$ 1,897,521	\$ 12,545	\$ 27,099,849

¹All other ASA/defined contributions consist of PERF and TRF ASA assets which are not invested into the Guaranteed Fund plus other Legislators' defined contributions that are not invested into the Consolidated Defined Benefit Assets.

(I) Investments Receivable and Investments Payable

Investments receivable and investments payable consist primarily of receivables or payables for securities purchased or sold, but not settled as of June 30, 2013.

(J) Capitalized Assets

Capital assets, fixed and intangible, are capitalized at historical cost when total cost is \$20,000 or more. The costs of items like normal maintenance, repairs, and software license agreements that do not add to the value of the assets or materially extend assets' lives are not capitalized. Depreciation and amortization are calculated using straight-line method over the estimated useful

Notes to the Financial Statements, continued June 30, 2013

life of assets exceeding one (1) year life; depreciation and amortization expenses are recognized in administrative expenses.

The following are net capitalized asset values as of June 30, 2013:

(dollars in thousands)

Capitalized Assets	Gross Cost	Accumulated Depreciation Amortization	Net Capitalized Assets
Land	\$ 547	\$ -	\$ 547
Building	2,893	(1,288)	1,605
Equipment	87	(87)	-
Software	15,391	(5,389)	10,002
Total	\$ 18,918	\$ (6,764)	\$ 12,154

INPRS owns and occupies the land and building at 143 W. Market Street, Indianapolis, IN. The building is being depreciated over 20 years.

All capitalized equipment is currently fully depreciated. No new equipment was capitalized during the current fiscal year.

INPRS is in the process of implementing new computer systems. Amortization is computed over five (5) years when assets are placed in service. Costs for purchase and development of computer software meeting minimum cost and service life estimates are capitalized as incurred. A new employer reporting system was placed in service during fiscal year 2013.

(K) Benefits and Distributions

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' annuity savings accounts. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

(L) Interfund Balances and Transfers

Total interfund balances represent routine transfers between funds for initial retirements and payments of shared administrative expenses as part of the agency's operations. Payments of interfund balances are funded on a routine basis between funds.

When statute allows, transfers of member and employer reserves are made between funds when a retiring member has service in multiple funds. Once a member selects which fund he/she wishes to retire from, creditable service covered by the other fund and the related Annuity Savings Account (ASA) balance will be transferred to the fund selected in calculating the member's retirement benefit. At the time the retirement is calculated, the fund selected sets up a receivable from the other fund for both the ASA balance and the calculated reserve for the service credit brought in from the other fund. This receivable is included as a line item in the Receivables section of Statement of Fiduciary Net Position. On the reverse side, a payable is recognized in the Liabilities section of the Statement of Fiduciary Net Position.

Notes to the Financial Statements, continued June 30, 2013

(M) Compensated Absences

INPRS' full-time employees accumulate earned but unused vacation, sick pay, and personal time each pay period. Bonus vacation days are awarded upon completion of five (5), 10 and 20 years of employment with INPRS and/or the state of Indiana. Upon separation from service, employees in good standing will be paid for a maximum of 30 unused vacation leave days.

Vacation and personal leave are reported as part of the Salaries and Benefits Payable line in the Liabilities section of the Statement of Fiduciary Net Position. No liability is reported for unpaid accumulated sick leave since it is not probable that sick leave will be paid.

(N) Administrative, Project and Direct Investment Expenses

An annual budget for the administrative, project and direct investment expenses of INPRS is reviewed and approved by the INPRS Board of Trustees. These expenses are paid from plan assets and investment earnings.

The PERF plan pays the shared administrative, project and direct investment expenses of all the funds. At June 30, a receivable is established in the PERF plan and a payable in the other funds for the amount due to the PERF plan for the other funds' administrative expenses. The payable and receivable are settled routinely.

(O) Federal Income Tax Status

Plans administered by INPRS qualify under Section 401(a) of the Internal Revenue Code (IRC) and are exempt from federal income taxes under Section 501(a) of the IRC.

(P) Reserves and Designations

The following are the legally required reserves.

1. Member Reserve – The member reserve represents member contributions made by or on behalf of the members plus any interest or earnings, less amounts distributed or transferred to the Benefits in Force reserve for retirement, disability, or other benefits. For the PERF and TRF plans, this reserve includes the members' annuity savings accounts.

2. Employer Reserve – This reserve consists of the accumulated employer contributions, plus earnings, less transfers made to the Benefits in Force reserve of the actuarial pension cost for retirement, disability, or other benefits.

3. Benefits in Force – This reserve represents the actuarially determined present value of future benefits for all members who are currently retired or disabled and survivors of members who died in service. The accumulated contributions of the members who elect to annuitize their annuity savings accounts and the actuarial pension cost are transferred to the reserve upon retirement, disability, or death.

4. Undistributed Investment Income Reserve – This reserve is credited with all investment earnings. Interest transfers are made periodically during the year to the other reserves as allowed or required by the individual funds' statutes. The transfers are at rates established by the INPRS Board of Trustees, statutes or the actual earning rates of the investment options, depending on the statutes of the individual funds. Any remaining balance (positive or negative) is transferred to the employer reserve and allocated to the employers of the funds.

Notes to the Financial Statements, continued June 30, 2013

Additional information regarding the funded status can be found in Note 10. The Member Reserve and Benefits in Force are fully funded.

The following are the balances of the reserves as of June 30, 2013:

(dollars in thousands)

Retirement Funds	Member Reserve	Employer Reserve ¹	Benefits in Force	Undistributed Income	Total Reserves
PERF	\$ 2,798,494	\$ 4,115,118	\$ 5,806,989	\$ -	\$ 12,720,601
TRF	2,804,780	2,819,398	4,024,701	-	9,648,879
1977 Fund	782,969	2,261,498	1,072,394	-	4,116,861
Judges' Retirement System	29,056	156,840	189,856	-	375,752
EG&C Plan	7,495	40,115	49,409	-	97,019
PARF	25,371	5,175	17,374	-	47,920
Legislators' Retirement System:					
LEDB Plan	N/A	671	2,666	-	3,337
LEDC Plan	25,322	N/A	N/A	-	25,322

¹The employer reserve includes \$24 thousand of reserve monies for the unvested portion of the ASA Only Plan.

(Q) PERF Annual Pension Cost and Net Pension Obligation

PERF is a pension trust fund of the State of Indiana, and PERF employees are combined with the state of Indiana for actuarial purposes.

The Annual Pension Cost and Net Pension Obligations as of June 30, 2013, and the historical trend information for the state of Indiana PERF Defined Benefit retirement plan are as follows:

Annual Pension Cost and Net Pension Obligations (dollars in thousands)

Annual Required Contribution	\$ 160,150
Interest on Net Pension Obligation	3,427
Adjustment to Annual Required Contribution	(3,989)
Annual Pension Cost	159,588
Actual Employer Contributions	157,581
Increase (Decrease) in Net Pension Obligation	2,007
Net Pension Obligation, Beginning of Year	50,773
Net Pension Obligation, End of Year	\$ 52,780
Memo: State Contribution Rate - FY2013	9.7%

Three-Year Trend Information (dollars in thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
June 30, 2013	\$ 159,588	98.7%	\$ 52,780
June 30, 2012	183,328	75.5	50,773
June 30, 2011	176,882	65.1	5,773

Notes to the Financial Statements, continued June 30, 2013

(R) New Accounting Pronouncements

GASB Statement No. 60, *Accounting for Service Concession Arrangements*, improves financial reporting related to service concession arrangements which are a type of public-private or public-public partnerships where there is an arrangement between a government and a private sector entity to deliver a governmental asset (normally infrastructure or a public facility) and, often, the related public service (in some cases, the arrangement may be solely for the delivery of the public service related to an existing governmental asset). The provisions of GASB Statement No. 60 are effective for financial statements beginning after December 15, 2011. Management has evaluated GASB Statement No. 60 and determined the statement does not have an impact on INPRS' financial reporting.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for inclusion of component units in the financial reporting entity. The amendments to the criteria for including component units will allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The provisions of GASB Statement No. 61 are effective for financial statements beginning after June 15, 2012. Management has evaluated GASB Statement No. 61 and determined the amendment does not have an impact on INPRS' financial reporting.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standard Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The statement improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments into a single source with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statements users. The provisions of GASB Statement No. 62 are effective for financial statements for periods beginning after December 15, 2011. Management has evaluated GASB Statement No. 62 and determined the statement does not have an impact on INPRS' financial reporting.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. This statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of GASB Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011. Management has evaluated GASB Statement No. 63 and determined the statement does not have an impact on INPRS' financial reporting.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of GASB Statement No. 65 are effective for financial statements for

Notes to the Financial Statements, continued June 30, 2013

periods beginning after December 15, 2012. Management is currently evaluating GASB Statement No. 65 and, if applicable, will implement it in the financial statements for fiscal year 2014.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB Statement No. 66 are effective for financial statements for periods beginning after December 15, 2012. Management is currently evaluating GASB Statement No. 66 and, if applicable, will implement it in the financial statements for fiscal year 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, will improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The provisions of GASB Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. Management is currently evaluating GASB Statement No. 67 and will implement it in the financial statements for fiscal year 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of GASB Statement No. 68 are effective for financial statements for periods beginning after June 15, 2014. Management is currently evaluating GASB Statement No. 68 to assist the employers in implementing in their financial statements for fiscal year 2015.

GASB Statement 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combination and disposals of government operations. The term, government combinations, include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The statement requires disclosures to be made about government combinations and disposals of government operations to enable financial

Notes to the Financial Statements, continued June 30, 2013

statement user to evaluate the nature and financial effects of those transactions. The provisions of Statement No. 69 are effective for financial statements for periods beginning after December 15, 2013. Management is currently evaluating GASB Statement No. 69 and, if applicable, will implement it in the financial statements for fiscal year 2015.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate, but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The provisions of Statement No. 70 are effective for financial statement periods beginning after June 15, 2013. Management is currently evaluating GASB Statement No. 70 and, if applicable, will implement it in the financial statements for fiscal year 2014.

Note 4. Contributions Required and Contributions Made

Overview

In summary, the employer contribution rates for all of the INPRS defined benefit plans are actuarially determined, except for the TRF Pre-1996 Account. The TRF Pre-1996 Account is funded on a pay-as-you-go basis as described in the Teachers' Retirement Fund portion of this note below. For the other defined benefit retirement plans, the required employer contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation.

The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they come due. Employer contribution rates for fiscal year 2013 were determined by using the fiscal year 2011 actuarial valuation results projecting forward payroll for fiscal year 2013.

The unfunded actuarial accrued liability on any valuation date is the present value of projected future benefits to be paid less the actuarial value of assets (AVA). Actuarial assets are calculated using an asset smoothing method of investment gains and losses on the market value of assets (MVA). The asset smoothing method is used to reduce the year-over-year volatility in the calculation of the funded status and employer contribution rates. INPRS applies a four-year smoothing method, with a 20 percent corridor, where the AVA cannot be more than 120 percent or less than 80 percent of the MVA after the four-year smoothing of gains and losses is applied.

Except for the LEDB Plan, the actuarial cost method used in the valuation is the entry age normal cost method. Under this method, costs are spread evenly over a member's career. For the LEDB Plan, the actuarial cost method used is the Traditional Unit Credit method, since this is a frozen plan to new entrants and benefits are no longer increasing.

Annual actuarial costs consist of two (2) components, the normal cost and an amortized amount of the plan's unfunded liability.

Notes to the Financial Statements, continued *June 30, 2013*

Normal cost represents the estimated amount of benefits earned during the current year and the unfunded liability amount is amortized over a 30-year closed period. These two (2) components make up the development of the employer contribution rates.

(A) Public Employees' Retirement Fund

The state of Indiana is obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. During fiscal year 2013, all participating employers were required to contribute 9.7 percent of covered payroll for State members. For political subdivisions, an average contribution rate of 8.8 percent was required from employers during the period of July 1 – December 31, 2012, and an average contribution rate of 9.7 percent was required for the period of January 1 – June 30, 2013. For the ASA Only Plan all participating employers were also required to contribute 9.7 percent of covered payroll. In accordance to IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than 3 percent and not be greater than the normal cost of the fund which was 4.7 percent for fiscal year 2013 and any amount not credited to the member's account shall be applied to the Unfunded Actuarial Accrued Liability of the PERF Hybrid Plan.

The PERF Hybrid Plan or the PERF ASA Only Plan members contribute three (3) percent to their Annuity Savings Account, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The employer shall pay the member's contributions on behalf of the member for the PERF ASA Only Plan. In addition, members of the PERF Hybrid Plan may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts. Upon retirement, members may choose to annuitize the amount of their annuity saving accounts if the member has met all of the criteria established by the INPRS Board of Trustees.

(B) Teachers' Retirement Fund

The TRF Pre-1996 Account is funded on a pay-as-you-go basis for employees hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date. State appropriations are made in accordance with IC 5-10.4-2-4 for each fiscal year. Currently, a three (3) percent year-over-year increase is being provided through state appropriations. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund, which was established according to IC 5-10.4-2-5. In fiscal year 2013, the State appropriated an additional \$207 million from State excess reserves in accordance with 2012 HB 1376 and also pre-funded a one-time check (a.k.a. 13th check) of \$20 million in accordance with 2012 HB 1123 (which went into the Pension Stabilization Fund).

The employer contribution rate for the TRF 1996 Account (i.e., members hired on or after July 1, 1995, or hired before July 1, 1995 and prior to June 30, 2005, were either hired by another school corporation or institution covered by the Fund, or were re-hired by a covered prior employer) is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic

Notes to the Financial Statements, continued *June 30, 2013*

employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As the TRF 1996 Account is a cost-sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. During fiscal year 2013, all participating employers in the TRF 1996 Account were required to contribute 7.5 percent of covered payroll.

TRF members contribute three (3) percent to their Annuity Savings Account, which is not used to fund the defined benefit pension. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts. Upon retirement, members may choose to annuitize the amount in their annuity savings accounts to be combined with their monthly pension amount.

(C) 1977 Police Officers' and Firefighters' Pension and Disability Fund

The funding policy for the 1977 Fund requires remittances of member and employer contributions based on percentages of the salary of a first class officer or firefighter rather than actual payroll. The employer contribution rate is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 36-8-8-6. As the 1977 Fund is a cost-sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. During fiscal year 2013, all participating employers were required to contribute 19.7 percent of the salary of a first class officer or firefighter.

The member contribution rate is not actuarially determined but was established by statute IC 36-8-8-8 at six (6) percent of the salary of a first class officer or firefighter. Each fund member shall contribute during the period of the fund member's employment or for 32 years, whichever is shorter. The employer may pay all or a part of the contribution for the member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before the fund member completes 20 years of active service. The INPRS Board of Trustees shall return to the fund member in a lump sum the fund member's contributions plus interest as determined by the INPRS Board of Trustees in accordance with IC 36-8-8-8.

(D) Judges' Retirement System

The funding policy for the Judges' Retirement System is in accordance with statute IC 33-38-6-17 that requires an appropriation, determined by the INPRS Board of Trustees from the state of Indiana General Fund, for each biennium to the Judges' Retirement System computed on an actuarially funded basis and the recommendation of the actuary. The State appropriated additional monies during fiscal year 2013 for the Judges' Retirement System of \$90 million from state excess reserves in accordance with 2012 HB 1376.

The member contribution rate is not actuarially determined but was established by statute IC 33-38-7-10 (1977 System) and IC 33-38-8-11 (1985 System) at six (6) percent of salary. Each fund member shall contribute during the period of the fund member's employment, or for 22 years, whichever is shorter. The employer may pay all or a part of the contributions for the member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before being eligible for a retirement benefit. The INPRS Board of Trustees shall return to the fund member an amount

Notes to the Financial Statements, continued *June 30, 2013*

equal to the total sum contributed to the fund plus interest at a rate specified by the INPRS Board of Trustees in accordance with IC 33-38-7-13 (1977 System) and IC 33-38-8-12 (1985 System).

(E) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan

The funding policy for the EG&C Plan is in accordance with statute IC 5-10-5.5-8.5. The employer contribution rate is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation. During fiscal year 2013, all participating employers were required to contribute 20.75 percent of covered payroll. The State appropriated additional monies during fiscal year 2013 for the EG&C Plan of \$15 million from state excess reserves in accordance with 2012 HB 1376.

The member contribution rate is not actuarially determined but was established by statute IC 5-10-5.5-8 at four (4) percent of a participant's salary to be contributed to the participant's savings account. The employer may pay all or a part of the contribution for the participant. Member contributions are used to fund a portion of the defined benefit payment. Any participant who terminates employment before accumulating 15 years of creditable service and before attaining the age of 45 shall be entitled to a lump sum refund of all contributions in the participant's savings account plus accumulated interest as determined by the INPRS Board of Trustees in accordance with IC 5-10-5.5-17.

(F) Prosecuting Attorneys' Retirement Fund

The funding policy for PARF is in accordance with statute IC 33-39-7-23 that requires an appropriation, determined by the INPRS Board of Trustees from the state of Indiana General Fund, for each biennium to PARF computed on an actuarially funded basis and the recommendation of the actuary. The State appropriated additional monies during fiscal year 2013 for PARF of \$17 million from state excess reserves in accordance with 2012 HB 1376.

The member contribution rate is not actuarially determined but was established by statute IC 33-39-7-12 at six (6) percent of salary. The employer may elect to pay the contributions for a member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before the member completes eight (8) years of creditable service. The INPRS Board of Trustees shall return to the fund member an amount equal to the total sum contributed to the fund plus interest at a rate specified by the INPRS Board of Trustees in accordance with IC 33-39-7-13.

(G) Legislators' Retirement System

For the LEDB Plan, the funding policy is in accordance with statute IC 2-3.5-4-9 and IC 2-3.5-4-10. The amount required to actuarially fund participants' retirement benefits, as determined by the INPRS Board of Trustees on the recommendation of the actuary, is to be appropriated from the state of Indiana General Fund for each biennium.

For the LEDC Plan, each participant is required to contribute five (5) percent of annual salary in accordance with statute IC 2-3.5-5-4. In addition, the state of Indiana is required by statute IC 2-3.5-5-5.5 to contribute a percentage of the member's annual salary on behalf of the participant as determined by INPRS Board of Trustees and confirmed by the State Budget Agency each year. Effective January 1, 2013, the rate was established at 12.7 percent.

Note 5. Deposits and Investments

(A) Investment Guidelines and Limitations

The Indiana General Assembly enacted the prudent investor standard to apply to the INPRS Board of Trustees and govern all its investments. Under statute (IC 5-10.3-5-3(a)) for PERF and (IC 5-10.4-3-10(a)) for TRF, the Board of Trustees must “invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.” The Board of Trustees also is required to diversify such investments in accordance with the prudent investor standard.

Within these governing statutes, the INPRS Board of Trustees has broad authority to invest the assets of the plans. The INPRS Board of Trustees utilizes external investment managers, each with specific mandates to collectively achieve the investment objectives of the retirement funds. Depending on the mandate and the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled accounts, mutual funds or other structures acceptable to the INPRS Board of Trustees. An asset allocation review is conducted periodically.

In October 2011, the INPRS Board of Trustees adopted a new Investment Policy Statement effective January 1, 2012, and the new strategic asset allocation for the Consolidated Defined Benefit Assets is as follows:

Global Asset Classes	Target Allocation	Target Range
Public Equity	22.5%	20.0% to 25.0%
Private Equity	10.0%	7.0% to 13.0%
Fixed Income - Ex Inflation-Linked	22.0%	19.0% to 25.0%
Fixed Income - Inflation-Linked	10.0%	7.0% to 13.0%
Commodities	8.0%	6.0% to 10.0%
Real Estate	7.5%	4.0% to 11.0%
Absolute Return	10.0%	6.0% to 14.0%
Risk Parity	10.0%	5.0% to 15.0%

Contributions and asset reallocation in the PERF and TRF Annuity Savings Accounts and the Legislators’ Defined Contribution Plan (LEDC) are directed by the members in each plan and as such, the asset allocation will differ from that of the Consolidated Defined Benefit Assets.

The Pension Relief Fund (PR Fund) is invested 100 percent in a money market fund.

Notes to the Financial Statements, continued June 30, 2013

The State Employees' Death Benefit Fund and the Public Safety Officers' Special Death Benefit Fund are 100 percent invested in short-term and fixed income investments.

(B) Custodial Credit Risk

Deposits, investment securities, and collateral securities are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, that INPRS will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of INPRS and are held by either the counterparty or the counterparty trust department's agent, but not in INPRS' name.

Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5 for PERF and IC 5-10.4-3-14(a) and IC 5-10.4-3-13 for TRF, securities are required to be held for the fund under custodial agreements. INPRS' custody agreement with the custodian requires that the custodian segregate the securities on the custodian's books and records from the custodian's own property. In addition, any investment manager for INPRS is not allowed, under any circumstances, to take possession, custody, title, or ownership of any managed assets.

There was no event relative to custodial credit risk for investments, including investments related to securities lending collateral, as of June 30, 2013.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the demand deposit accounts are carried at cost and are insured up to \$250 thousand for each institution. Deposits in the demand accounts held in excess of \$250 thousand are not collateralized. Deposits with the Indiana Treasurer of State are entirely insured. Deposits held with counterparties are carried at cost and are not insured or collateralized.

(dollars in thousands)

Cash Deposits	Total
Demand Deposit Account – Bank Balances	\$ 10,001
Held with Indiana Treasurer of State	1,234
Held with Counterparties	227,713
Total	\$ 238,948

(C) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The longer the maturity, the more the value of the fixed-income investment will fluctuate with interest rate changes. The INPRS Investment Policy Statement recognizes interest rate risk as a market risk factor that is monitored on an absolute and relative basis.

Notes to the Financial Statements, continued June 30, 2013

As of June 30, 2013, debt securities had the following duration information:

(dollars in thousands)

Debt Security Type	Fair Value 6/30/2013	% of All Debt Securities	Portfolio Weighted Average Effective Duration (Years)
Short Term Investments			
Cash at Brokers	\$ 227,648	1.7%	-
Money Market Sweep Vehicle	983,930	7.5	0.01
Commercial Paper	9,692	0.1	0.16
U.S. Treasury Obligations	183,284	1.4	0.22
U.S. Agencies	43,070	0.3	0.14
Non-U.S. Government	19,612	0.2	0.13
Total Short Term Investments	1,467,236	11.2	
Fixed Income Investments			
U.S. Governments	3,720,035	28.4	8.94
Non-U.S. Government	1,361,258	10.4	7.51
U.S. Agencies	1,029,359	7.9	3.68
Corporate Bonds	3,496,484	26.7	4.68
Asset-Backed Securities	834,536	6.4	1.16
Commingled Fixed Income Funds	8,493	0.1	3.79
Duration Not Available	1,186,224	8.9	N/A
Total Fixed Income Investments	11,636,389	88.8	
Total Debt Securities	\$ 13,103,625	100.0%	

The \$1,186 million, for which no duration was available, is primarily made up of commingled debt funds.

(D) Credit Risk

The credit risk of investments is the risk that the issuer will default and not meet their obligations. The INPRS Investment Policy Statement recognizes credit (quality) risk as a market and strategic risk factor that is monitored on an absolute and relative basis.

The quality rating of investments in debt securities as described by Moody's at June 30, 2013 is as follows:

(dollars in thousands)

Moody's Rating	Short Term Investments	Debt Securities	Total	% of All Debt Securities
Aaa	\$ 226,354	\$ 832,268	\$ 1,058,622	8.1%
U.S. Government Guaranteed	-	4,756,243	4,756,243	36.3
Aa	4,921	948,757	953,678	7.3
A	-	1,117,185	1,117,185	8.5
Baa	396	1,897,826	1,898,222	14.5
Ba	-	309,353	309,353	2.3
B	-	209,712	209,712	1.6
Below B	-	77,789	77,789	0.6
Unrated	1,235,565	1,487,256	2,722,821	20.8
Total	\$ 1,467,236	\$ 11,636,389	\$ 13,103,625	100.0%

Notes to the Financial Statements, continued *June 30, 2013*

The \$2,723 million not rated by Moody's is primarily in the following security types: cash at broker, money market sweep vehicles, asset-backed securities, commercial mortgages, CMO/Remics and commingled debt funds.

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. The INPRS Investment Policy Statement recognizes issuer risk as a strategic risk factor that is monitored on an absolute and relative basis.

INPRS Investment Policy Statement has placed an upper limit on the concentration of assets placed with an investment manager.

- No investment manager shall manage more than 10 percent of the system's assets in actively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager shall be allowed to manage in excess of 15 percent of the system's assets in actively managed portfolios without Board approval.
- No investment manager shall manage more than 15 percent of the system's assets in passively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager shall be allowed to manage in excess of 20 percent of the system's assets in passively managed portfolios without Board approval.
- No investment manager shall manage more than 25 percent of the system's assets in a combination of actively and passively managed portfolios.

At June 30, 2013, single issuer exposure in the portfolio did not exceed 5 percent of the total net investments.

(E) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. INPRS' foreign currency exposure is focused primarily in international equity holdings.

The INPRS Investment Policy Statement recognizes foreign exchange risk and the impact on incremental risk and return is assessed based on overall portfolio exposure.

Unless otherwise approved by the Board, management of foreign currency exposure may be only implemented (1) by an Investment Manager on its Portfolio when the Investment Manager possesses recognized foreign exchange experience or (2) by an overlay manager or other third-party expert for a specific Portfolio or Retirement Fund. Any hedging strategy recommendation will be presented to the Board for approval and incorporated into the benchmark. The management and implementation of Board approved hedging activities will be implemented by the CIO, with the advice of the Executive Director and Consultants who are approved by the Board.

Notes to the Financial Statements, continued June 30, 2013

INPRS has exposure to foreign currency fluctuation as follows:

(dollars in thousands)		Foreign Currency Held at June 30, 2013				% of Total
Currency:	Short Term Investments	Debt Securities	Equity Securities	Other Investments	Grand Total	
Australian Dollar	\$ 347	\$ 17,777	\$ 81,705	\$ (36,511)	\$ 63,318	0.2%
Brazilian Real	203	26,045	13,940	22,835	63,023	0.2
Canadian Dollar	996	90,257	82,379	(88,895)	84,737	0.3
Chilean Peso	-	4,473	-	(5,343)	(870)	-
Chinese R Yuan HK	-	-	-	(4,134)	(4,134)	-
Chinese Yuan Renminbi	-	-	20	193	213	-
Colombian Peso	-	12,801	590	(1,358)	12,033	-
Czech Koruna	76	-	3,895	(6,415)	(2,444)	-
Danish Krone	82	-	16,677	-	16,759	0.1
Egyptian Pound	-	-	478	-	478	-
Euro Currency Unit	4,725	557,619	519,941	(337,438)	744,847	2.7
Hong Kong Dollar	493	-	137,850	-	138,343	0.5
Hungarian Forint	24	6,023	710	2,912	9,669	-
Indian Rupee	29	-	24,856	12	24,897	0.1
Indonesian Rupiah	66	14,082	3,101	3,855	21,104	0.1
Israeli Shekel	12	-	2,130	-	2,142	-
Japanese Yen	15,341	48,872	404,659	(72,072)	396,800	1.4
Malaysian Ringgit	42	20,011	5,149	18,475	43,677	0.2
Mexican Peso	5,882	38,034	4,361	(7,328)	40,949	0.1
New Taiwan Dollar	440	7	29,416	(259)	29,604	0.1
New Turkish Lira	26	23,331	25,115	(3,248)	45,224	0.2
New Zealand Dollar	27	7,846	1,911	491	10,275	-
Nigerian Naira	1,453	2,156	-	-	3,609	-
Norwegian Krone	161	40	31,011	34,588	65,800	0.2
Peruvian Nuevo Sol	-	2,179	-	278	2,457	-
Philippines Peso	18	8,971	2,051	1,724	12,764	-
Polish Zloty	353	13,341	1,658	1,705	17,057	0.1
Pound Sterling	6,552	272,418	319,815	(277,127)	321,658	1.2
Romania Leu	1	1,602	-	-	1,603	-
Russian Rubel	-	15,948	-	5,569	21,517	0.1
S Africa Comm Rnd	210	14,487	19,842	6,810	41,349	0.1
Singapore Dollar	40	-	33,128	(1,217)	31,951	0.1
South Korean Won	58	177	61,732	1,784	63,751	0.2
Swedish Krona	1,447	61,675	67,469	(62,251)	68,340	0.2
Swiss Franc	2,189	(27)	132,424	(8,153)	126,433	0.5
Thai Baht	95	12,781	15,649	855	29,380	0.1
Uruguayan Peso	-	1,066	-	-	1,066	-
Held in Foreign Currency	\$ 41,388	\$ 1,273,992	\$ 2,043,662	\$ (809,663)	\$ 2,549,379	9.0%

The foreign currency figures are comprised of all of the assets within the investment portfolio. The short term investment, debt securities and equity securities include accruals. Other investments include foreign holdings of other investments, derivatives and receivables/payables.

Notes to the Financial Statements, continued June 30, 2013

(F) Securities Lending

Indiana Code 5-10.2-2-13(d) provides that the INPRS Board of Trustees may authorize a custodian bank to enter into a securities lending program agreement under which certain securities held by the custodian on behalf of INPRS may be loaned. The statute requires that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower and must be maintained at no less than the total market value of the loaned securities.

The purpose of such a program is to provide additional revenue for the Consolidated Defined Benefits Assets. The INPRS Investment Policy Statement requires that collateral securities and cash be initially pledged at 102 percent of the market value of the securities lent for domestic securities and 105 percent for international securities. No more than 40 percent of the Consolidated Defined Benefit Assets may be lent at one time. The custodian bank and/or its securities lending sub-agents provide 100 percent indemnification of the Consolidated Defined Benefit Assets against borrower default, overnight market risk and failure to return loaned securities. Securities received as collateral cannot be pledged or sold unless the borrower defaults. INPRS retains the market value risk with respect to the investment of the cash collateral.

Cash collateral investments are subject to the investment guidelines specified by the INPRS Investment Policy Statement. It states that the maximum weighted average days to maturity may not exceed 60. The securities lending agent matches the maturities of the cash collateral investments with stated securities loans' termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities.

(dollars in thousands)

Securities Lending as of June 30, 2013	
Market value of securities on loan	\$ 1,849,234
Fair value of cash and non-cash collateral by investment type:	
U.S. Governments	\$ 1,076,460
Corporate Bonds	143,000
International Bonds	40,743
Domestic Equities	470,901
International Equities	168,746
Fair value of cash and non-cash collateral	1,899,850
Fair value of non-cash collateral that is not included in the Statements of Fiduciary Plan Net Position	819,303
Fair value of cash collateral (liability to borrowers)	1,080,547
Fair value of reinvested cash collateral by type:	
Commercial Paper	98,527
Repurchase Agreements	547,038
U.S. Agencies	79,022
Floating Rate Notes	298,724
Certificate of Deposits	57,236
Fair value of reinvested cash collateral	1,080,547
Net unrealized gain	\$ -

Notes to the Financial Statements, continued June 30, 2013

The quality rating of the reinvested cash collateral investments as described by Standard and Poor's at June 30, 2013 is as follows:

(dollars in thousands)

Standard and Poor's Rating	Fair Value of Reinvested Cash Collateral	Percent of Portfolio
A-1 and A-1 +	\$ 234,756	21.7%
AAA	5,407	0.5
AA +	16,029	1.5
AA-	228,467	21.1
A +	48,821	4.5
Unrated	547,087	50.7
Total	\$ 1,080,567	100.0%

The majority of the unrated reinvested cash collateral investments consist of repurchase agreements.

(G) Repurchase Agreements

A repurchase agreement is an agreement in which INPRS transfers cash to a broker-dealer or financial institution. The broker-dealer or financial institution transfer securities to INPRS and promises to repay the cash plus interest in exchange for the same securities. Repurchase agreements are assets with the security collateral held at INPRS' custodian bank.

A reverse repurchase agreement is the same as a repurchase agreement, but from the perspective of the buyer rather than the seller. Repurchase agreements are secured loans with INPRS' collateral held at the broker dealer or financial institution's custodian bank.

The amounts held at June 30, 2013, exclusive of securities lending reinvested cash collateral, are as follows:

(dollars in thousands)

Repurchase Agreements by Collateral Type	Cash Collateral Received	Market Value
U.S. Agencies	\$ 16,600	\$ 16,957
U.S. Treasury	12,200	12,454
Total	\$ 28,800	\$ 29,411

Reverse Repurchase Agreements by Collateral Type	Cash Collateral Posted	Market Value
U.S. Treasury	\$ 11,112	\$ 11,060
U.S. Inflation Linked Bonds	161,494	163,745
Total	\$ 172,606	\$ 174,805

Note 6. Derivative Financial Instruments

(A) Overview of Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. The fair value of all derivative financial instruments is reported in the Statement of Fiduciary Net Position as either assets or liabilities, and the change in the fair value is recorded in the Statement of Changes in Fiduciary Net Position as investment income. A derivative instrument could be a contract negotiated on behalf of the Master Trust and a specific counterparty. This would typically be referred to as an “OTC contract” (Over the Counter) such as swaps and forward contracts. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as “exchange traded”. Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. Investments in limited partnerships may include derivatives that are not shown in the derivative total.

Futures

A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date. INPRS’ investment managers use financial futures to replicate an underlying security or index they intend to hold or sell in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, INPRS’ investment managers use futures contracts to adjust the portfolio risk exposure. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities. No short sales of equity securities or equity index derivatives are permitted.

As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio.

Options

Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call) or to sell (in the case of a put) a specific amount of an asset for a specific price on or before a specified expiration date.

The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of a call option receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. An interest rate swaption is the option to enter into an interest rate swap based off a set of predetermined conditions.

Options are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value of exchange traded options is determined based upon quoted market prices.

Notes to the Financial Statements, continued *June 30, 2013*

The fair value of over the counter options is determined by external pricing services, using various proprietary methods, based upon the type of option.

Swaps

Interest rate swaps are derivative instruments in which one party exchanges a stream of fixed interest rate cash flows for floating interest rate cash flows. A notional amount of principal is required to compute the actual cash amounts and is determined at the inception of the contract.

Interest rate swaps are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value is determined by external pricing services using various proprietary methods.

An inflation swap is a derivative used to transfer inflation risk from one party to another through an exchange of cash flows. In an inflation swap, one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index, such as the Consumer Price Index (CPI) or an inflation bond.

Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other predetermined credit event for the referenced entity, obligation or index.

Credit default swaps are used to achieve the desired credit exposure of a security or basket of securities. One of the main advantages of a credit default swap is it allows for exposure to credit risk while limiting exposure to other risks, such as interest rate and currency risk. The fair value is determined by external pricing services using various proprietary methods.

Forwards

A forward currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. A contract is classified as a forward contract when the settlement date is more than two days after the trade date. Risks associated with such contracts include movement in the value of a foreign currency relative to the U.S. dollar. The contracts are valued at forward exchange rates and include net appreciation / depreciation in the Statement of Fiduciary Net Position. Realized gains or losses on forward currency contracts is the difference between the original contract and the closing value of such contract and is included in the Statement of Changes in Fiduciary Net Position.

The Fund enters into foreign currency forwards to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings and to settle future obligations.

Notes to the Financial Statements, continued June 30, 2013

(B) Derivative Contracts

The table below summarizes INPRS' derivative contracts for the year ending June 30, 2013:

(dollars in thousands)

Investment Derivatives	Change in Fair Value	Fair Value	Notional (USD)
Listed Futures:			
Equity Index	\$ (11,062)	\$ (11,062)	\$ 499,854
Commodity	(46,030)	(46,030)	1,030,053
Bond	(6,743)	(6,672)	106,577
Currency	41	155	52,511
Interest Rate	(377)	(377)	291,364
Total Listed Futures	(64,171)	(63,986)	1,980,359
Options:			
Listed			
Currency	286	29	36,565
Subtotal Listed	286	29	36,565
OTC			
Swaptions	6,735	30,650	1,029,320
Subtotal OTC	6,735	30,650	1,029,320
Total Options	7,021	30,679	1,065,885
Swaps:			
OTC			
Interest Rate Swaps	(6,015)	(7,013)	1,815,195
Inflation Swaps	12	126	38,885
Equity Index	2	-	200
Credit Default Swaps Single Name	759	913	153,706
Credit Default Swaps Index	1,112	990	367,464
Total Swaps	(4,130)	(4,984)	2,375,450
Total Derivatives	\$ (61,280)	\$ (38,291)	\$ 5,421,694

(dollars in thousands)

Swap Type	Swap Maturity Profile at June 30, 2013					
	< 1 yr	1 - 5 yrs	5-10 yrs	10 - 20 yrs	20 + yrs	Total
Interest Rate Swaps	\$ -	\$ (3,224)	\$ (2,273)	\$ (17,284)	\$ 15,768	\$ (7,013)
Inflation Swaps	-	-	-	126	-	126
Equity Index	-	-	-	-	-	-
Credit Default Swaps Single Name	1	1,207	405	(147)	(553)	913
Credit Default Swaps Index	(450)	(354)	-	-	1,794	990
Total Swap Fair Value	\$ (449)	\$ (2,371)	\$ (1,868)	\$ (17,305)	\$ 17,009	\$ (4,984)

Notes to the Financial Statements, continued June 30, 2013

(dollars in thousands)

Credit Default Swaps				
Investment Type		Reference	Fair Value	Notional
Single Name	Seller Protection	Various	\$ (947)	\$ 61,660
Single Name	Buyer Protection	Various	1,860	92,046
Total CDS - Single Name			\$ 913	\$ 153,706
Index	Bought	CDX IG	\$ (1,497)	\$ 216,700
Index	Sold	CDX IG	875	95,475
Index	Bought	CDX ABX	2,424	8,218
Index	Sold	CDX CMBX	(631)	15,700
Index	Bought	CDX HY	(571)	17,391
Index	Sold	CDX HY	365	11,560
Index	Bought	CDX ITRAXX	25	2,420
Total CDS - Index			\$ 990	\$ 367,464

(C) Credit Risk

Counterparty credit risk exists on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract.

INPRS' investment managers use International Swaps and Derivative Association Master Agreements to further reduce counterparty risk by specifying credit protection mechanisms and providing standardization that improves legal certainty, thereby reducing the probability of unforeseen losses. Furthermore, the master agreements can provide additional credit protection through the requirement of collateral exchange and certain event of default and mutual termination provisions. Securities eligible as collateral are typically United States government bills and U.S. dollar cash.

The maximum amount of loss due to credit risk that the Fund would incur if the counterparty to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangements, is the total unrealized gain of derivatives at the end of the reporting period. The aggregate fair value of investment derivative instruments in an unrealized gain position at June 30, 2013, was \$39,209 thousand, of which \$15,136 thousand was uncollateralized.

The table below summarizes INPRS' swap positions as of June 30, 2013:

(dollars in thousands)		Fair Value			Collateral	
Swaps Counterparty	S&P Rating	Receivable Unrealized Gain	Payable (Unrealized Loss)	Total Fair Value	Posted	Received
Bank of America	A-	\$ 2,927	\$ (5,669)	\$ (1,491)	\$ 260	\$ (1,550)
Barclays	A	1,641	(3,315)	(2,059)	861	(300)
BNP Paribas Securities Corp	A+	60	-	71	-	-
Citibank	A-	1,459	(5,168)	(850)	-	(14,158)
CME Central	AA-	673	(67)	431	8	-
Credit Suisse	A	9,075	(7,941)	(2,678)	3,695	(430)
Deutsche Bank	A+	4,978	(7,457)	(5,057)	-	(8,549)
Goldman Sachs	A-	13,751	(3,513)	11,449	640	(13,670)
HSBC Securities Inc.	A+	10	(5)	(5)	-	-
IntercontinentalExchange Inc.	A	98	(75)	(72)	-	-
JPMorgan Chase Bank	A	3,501	(3,893)	327	-	(650)
Morgan Stanley Capital Services	A-	410	(14)	384	-	(2,078)
Royal Bank of Canada (RBC)	AA-	623	(641)	6	-	(650)
UBS	A	3	(6,533)	(5,440)	-	(370)
Grand Total		\$ 39,209	\$ (44,291)	\$ (4,984)	\$ 5,464	\$ (42,405)

Notes to the Financial Statements, continued June 30, 2013

(D) Interest Rate Risk

The System has exposure to interest rate risk due to investments in interest rate and inflation swaps and TBAs. The required risk disclosures are included in the Interest Rate Risk schedule in Note 5.

The table below summarizes INPRS' Investments that are highly sensitive to interest rate changes:

(dollars in thousands)

Derivative Instruments Highly Sensitive to Interest Rate Changes			
Reference Rate	Fair Value		Notional
Interest Rate Swap:			
Pay Variable 3M CDOR / Receive Fixed Various 1.75% to 3.04%	\$	(992)	\$ 34,931
Pay Fixed Various 2.99% to 3.23% / Receive Variable 3M CDOR		1,131	14,740
Pay Fixed Various 1.75% to 2.75% / Receive Variable 3M STIBOR		361	14,142
Pay Variable 3M STIBOR / Receive Fixed 2.75%		(226)	9,552
Pay Fixed Various 1.93% to 3.00% / Receive Variable 6M EURIBOR		(278)	29,351
Pay Variable 6M EURIBOR / Receive Fixed Various 0.60% to 3.00%		90	178,170
Pay Fixed Various 2.50% to 4.00% / Receive Variable 6M NIBOR		28	14,472
Pay Variable 6M NIBOR / Receive Fixed 4.00%		12	6,015
Pay Fixed 3.50% / Receive Variable 6M BBSW		178	14,655
Pay Variable 6M BBSW / Receive Fixed 3.50%		(58)	4,760
Pay Fixed Various 3.50% to 4.00% / Receive Variable 3M NZD		323	8,518
Pay Variable BBSW / Receive Fixed Various 3.50% to 4.00%		(5,418)	159,546
Pay Variable 1D BRL CDI / Receive Fixed Various 8.86% to 10.67%		(674)	24,621
Pay Fixed Various 3.00% to 3.19% / Receive Variable 3M KRW		177	8,047
Pay Fixed Various 5.33% to 5.36% / Receive Variable CLP		10	449
Pay Variable Brazil CETIP / Receive Fixed Various 8.16% to 10.36%		(217)	8,918
Pay Fixed 3.50% / Receive Variable 3M NFIX3FRA		58	2,178
Pay Variable CPTW90DY / Receive Fixed 1.49%		7	1,190
Pay Variable 6M GBP-LIBOR / Receive Fixed Various 1.00% to 3.00%		(6,738)	250,780
Pay Fixed Various 1.00% to 3.00% / Receive Variable 6M GBP-LIBOR		15,920	221,579
Pay Variable 1M MXN-TIE BANXICO / Receive Fixed Various 5.63% to 7.81%		(369)	11,424
Pay Variable 3M ZAR-JIBAR_SAFEX / Receive Fixed Various 6.52% to 7.17%		(535)	7,384
Pay Variable 3M USD-LIBOR / Receive Fixed Various 1.00% to 3.17%		(14,685)	271,152
Pay Fixed Various 0.50% to 3.00% / Receive Variable 3M USD-LIBOR		9,746	407,351
Pay Variable BZDIOVRA / Receive Fixed Various 8.88% to 8.94%		(4,864)	111,270
	\$	(7,013)	\$ 1,815,195
Inflation Swap:			
Receive 2.15% / Pay France CPI Ex Tobacco	\$	126	\$ 3,700
Put 2.00% Inflation Rate Cap / UL US CPI Urban Consumers		-	35,185
	\$	126	\$ 38,885

(E) Foreign Currency Risk

The Fund is exposed to foreign currency risk on its foreign currency forward contracts and futures contracts. The required risk disclosures are included in the Foreign Currency Risk schedule in Note 5.

Notes to the Financial Statements, continued June 30, 2013

At June 30, 2013, INPRS' investments included the following currency forwards balances:

(dollars in thousands)		
Foreign Currency Contract Receivable	\$	2,017,071
Foreign Currency Contract Payable		(2,004,661)

The aggregate realized gain/loss recognized for the period ended June 30, 2013 due to foreign currency transactions was a \$17,491 thousand realized loss.

Note 7. Long Term Commitments for Alternative Investments

INPRS enters into long term commitments for funding other investments in private equity and private real estate. These amounts include Euro currency denominated, Norwegian Krone denominated and British Pound Sterling denominated commitments to limited liability partnerships. The remaining amount of unfunded commitments, converted to U.S. dollars using the closing exchange rate, as of June 30, 2013, is as follows:

(dollars in thousands)		
Currency	Total Unfunded Commitments	
Euro Currency Unit	\$	74,248
Norwegian Krone		11,675
British Pound Sterling		1,504
U.S. Dollar		1,873,353
Total	\$	1,960,780

Note 8. Risk Management

INPRS is exposed to various risks of loss. This includes damage to property owned by INPRS, personal injury or property damage liabilities incurred by an INPRS officer, agent or employee, errors, omissions and theft by employees, certain employee death benefits, and unemployment and worker's compensation costs for INPRS employees.

INPRS records an expenditure for any loss as the liability is incurred or replacement items are purchased. Additionally, INPRS purchases commercial insurance related to property, general liability and employee crime. INPRS administers the state of Indiana's risk financing activity for the state employees' death benefits.

Note 9. Contingent Liabilities

INPRS participates in lawsuits that, in management's opinion, will not have a material effect on the financial statements.

Notes to the Financial Statements, continued June 30, 2013

Note 10. Funded Status and Actuarial Information – Defined Benefit Plans

The funded status of each Defined Benefit retirement plan as of June 30, 2013, the most recent actuarial valuation date, is as follows:

(dollars in thousands)

Retirement Plans	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) or (Funding Surplus) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL or (Funding Surplus) as a Percent of Covered Payroll [(b) - (a)] / (c)
PERF	\$ 12,947,283	\$ 16,145,681	\$ 3,198,398	80.2%	\$ 4,766,910	67.1%
TRF 1996 Account	4,453,828	4,749,368	295,540	93.8	2,740,940	10.8
1977 Fund	4,180,704	4,392,947	212,243	95.2	706,603	30.0
JRS ¹	381,240	453,110	71,870	84.1	46,967	153.0
EG&C Plan ¹	98,608	118,097	19,489	83.5	26,201	74.4
PARF ¹	48,762	61,940	13,178	78.7	21,217	62.1
LEDB Plan	3,428	4,295	867	79.8	N/A ²	N/A ²
Total INPRS (Excluding TRF Pre-1996 Account)	\$ 22,113,853	\$ 25,925,438	\$ 3,811,585	85.3%	\$8,308,838	45.9%
TRF Pre-1996 Account	5,235,104	16,462,379	11,227,275	31.8	1,383,428	811.6
Total INPRS (Including TRF Pre-1996 Account)	\$ 27,348,957	\$ 42,387,817	\$ 15,038,860	64.5%	\$9,692,266	155.2%
Memo:						
TRF - Total	\$ 9,688,932	\$ 21,211,747	\$ 11,522,815	45.7%	\$ 4,124,368	279.4%

¹In accordance with Legislation passed during March 2012, the State appropriated additional monies during FY2013 to reach a funded status of 80.0 percent based on the actuarial valuations as of June 30, 2012, for the following three (3) retirement plans:

Judges' Retirement System
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan
Prosecuting Attorneys' Retirement Fund

²Benefit formula is primarily based on services, rather than compensation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

The required Schedule of Funding Progress, presented as Required Supplementary Information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Notes to the Financial Statements, continued June 30, 2013

The accompanying Schedule of Contributions from Employers and Other Contributing Entities presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statements 25, 27 and 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

In addition, the actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Key methods and assumptions used in the latest actuarial valuations are presented below:

Description	PERF	TRF	1977 Fund	JRS	EG&C Plan	PARF	LEDB Plan
Valuation Date	June 30, 2013						
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)						Traditional Unit Credit
Amortization Method	Level Dollar						
Amortization Period	30 Years, Closed						
Asset Valuation Method	4-Year Smoothed Market Value With 20% Corridor						
Actuarial Assumptions:							
Investment Rate of Return	6.75%						
Cost of Living Increases	1.0%	1.0%	2.25%	4.0%	1.0%	N/A	1.0%
Future Salary Increases	3.25% - 4.5%	3.0% - 12.5%	3.25%	4.0%	3.25%	4.0%	3.0%
Inflation	3.0%						

Note 11. Subsequent Events

(A) Board Resolution

Public Employees' Retirement Fund and Teachers' Retirement Fund

- With the INPRS Board's decision to modify Annuity Savings Account (ASA) annuitizations starting October 1, 2014, the PERF and TRF incremental actuarial liability associated with expected annuitizations of ASA balances was removed from the actuarial valuations as of June 30, 2013.

Notes to the Financial Statements, continued June 30, 2013

(B) Legislative Changes

Below is a summary of significant legislative changes that are effective July 1, 2013.

Public Employees' Retirement Fund

- PERF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2013. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2013.

Teachers' Retirement Fund

- TRF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2013. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2013.

1977 Police Officers' and Firefighters' Pension and Disability Fund

- A 1.7 percent COLA was approved for eligible participants effective July 1, 2013, in accordance with IC 36-8-8-15.

Judges' Retirement System

- A 3.1 percent COLA was approved for eligible participants effective July 1, 2013.

State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan

- EG&C Plan members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2013. The amount of the one-time check ranged from \$125 to \$400, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2013.

State Employees' Death Benefit Fund

- State employees' death benefit increased from \$50,000 to \$100,000 effective July 1, 2013.

Note 12. Required Supplementary Information and Other Supplementary Schedules

The historical trend information designed to provide information about INPRS' progress in accumulating sufficient assets to pay benefits when due is included as Required Supplementary Information. The Schedule of Funding Progress and Schedule of Contributions from Employers and Other Contributing Entities are included immediately following the Notes to the Financial Statements. Other Supplementary Schedules (i.e., Schedule of Administrative and Project Expenses; Schedule of Investment Expenses; Schedule of Contractual and Professional Services Expenses) are presented for the purpose of additional analysis and are not a required part of the Financial Statements.

Indiana Public Retirement System



Required Supplementary Information: Schedule of Funding Progress

(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) or (Funding Surplus) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL or (Funding Surplus) as Percent of Covered Payroll [(b)-(a)] / (c)
Public Employees' Retirement Fund						
6/30/2008	\$ 12,780,116	\$ 13,103,221	\$ 323,105	97.5%	\$ 4,600,354	7.0%
6/30/2009	12,569,336	13,506,280	936,944	93.1	4,931,423	19.0
6/30/2010	12,357,199	14,506,052	2,148,853	85.2	4,896,013	43.9
6/30/2011	12,000,586	14,913,147	2,912,561	80.5	4,818,774	60.4
6/30/2012	12,088,225	15,784,240	3,696,015	76.6	4,904,052	75.4
6/30/2013	12,947,283	16,145,681	3,198,398	80.2	4,766,910	67.1
Teachers' Retirement Fund – Pre-1996 Account¹						
6/30/2008	\$ 5,953,991	\$ 15,792,305	\$ 9,838,314	37.7%	\$ 2,295,816	428.5%
6/30/2009	5,109,086	16,027,093	10,918,007	31.9	2,030,484	537.7
6/30/2010	5,382,410	16,282,066	10,899,656	33.1	1,865,102	584.4
6/30/2011	5,227,402	16,318,404	11,091,002	32.0	1,762,750	629.2
6/30/2012	4,978,107	16,522,015	11,543,908	30.1	1,637,066	705.2
6/30/2013	5,235,104	16,462,379	11,227,275	31.8	1,383,428	811.6
Teachers' Retirement Fund – 1996 Account						
6/30/2008	\$ 3,080,057	\$ 2,957,758	\$ (122,299)	104.1%	\$ 2,052,720	(6.0)%
6/30/2009	2,920,735	3,135,533	214,798	93.1	2,308,548	9.3
6/30/2010	3,422,554	3,614,559	192,005	94.7	2,447,509	7.8
6/30/2011	3,664,657	3,996,839	332,182	91.7	2,507,193	13.2
6/30/2012	3,936,455	4,338,309	401,854	90.7	2,594,952	15.5
6/30/2013	4,453,828	4,749,368	295,540	93.8	2,740,940	10.8
Teachers' Retirement Fund – Total						
6/30/2008	\$ 9,034,048	\$ 18,750,063	\$ 9,716,015	48.2%	\$ 4,348,536	223.4%
6/30/2009	8,029,821	19,162,626	11,132,805	41.9	4,339,032	256.6
6/30/2010	8,804,964	19,896,625	11,091,661	44.3	4,312,611	257.2
6/30/2011	8,892,059	20,315,243	11,423,184	43.8	4,269,943	267.5
6/30/2012	8,914,562	20,860,324	11,945,762	42.7	4,232,018	282.3
6/30/2013	9,688,932	21,211,747	11,522,815	45.7	4,124,368	279.4
1977 Police Officers' and Firefighters' Pension and Disability Fund						
12/31/2007	\$ 3,281,480	\$ 2,889,295	\$ (392,185)	113.6%	\$ 603,963	(64.9)%
12/31/2008	3,352,705	3,150,827	(201,878)	106.4	644,936	(31.3)
6/30/2009	3,265,598	3,332,686	67,088	98.0	649,018	10.3
6/30/2010	3,374,438	3,639,669	265,231	92.7	675,797	39.2
6/30/2011	3,593,787	3,638,956	45,169	98.8	687,342	6.6
6/30/2012	3,786,595	4,122,436	335,841	91.9	697,111	48.2
6/30/2013	4,180,704	4,392,947	212,243	95.2	706,603	30.0

¹In accordance with Legislation passed during March 2012, the State appropriated additional monies during FY2013 to reach a funded status of 80.0 percent based on the actuarial valuations as of June 30, 2012, for the following three (3) retirement plans:

Judges' Retirement System – \$90,187 thousand

State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan – \$14,619 thousand

Prosecuting Attorneys' Retirement Fund – \$17,363 thousand

In addition the TRF Pre-1996 Account was appropriated \$206,796 thousand during fiscal year 2013.

Refer to Note 10. (Funded Status and Actuarial Information -- Defined Benefit Plans) for the actuarial assumptions and methods used in preparing this schedule.

Indiana Public Retirement System



Required Supplementary Information: Schedule of Funding Progress, continued

(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) or (Funding Surplus) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL or (Funding Surplus) as Percent of Covered Payroll [(b)-(a)] / (c)
Judges' Retirement System¹						
6/30/2008	\$ 234,881	\$ 338,749	\$ 103,868	69.3%	\$ 33,729	307.9%
6/30/2009	240,954	330,551	89,597	72.9	36,196	247.5
6/30/2010	242,143	364,123	121,980	66.5	36,722	332.2
6/30/2011	248,623	400,274	151,651	62.1	45,764	331.4
6/30/2012	260,096	437,854	177,758	59.4	45,138	393.8
6/30/2013	381,240	453,110	71,870	84.1	46,967	153.0
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan¹						
6/30/2008	\$ 65,375	\$ 77,177	\$ 11,802	84.7%	\$ 21,333	55.3%
6/30/2009	68,170	89,296	21,126	76.3	25,238	83.7
6/30/2010	70,327	97,862	27,535	71.9	26,709	103.1
6/30/2011	72,599	101,534	28,935	71.5	24,028	120.4
6/30/2012	76,007	113,283	37,276	67.1	25,752	144.8
6/30/2013	98,608	118,097	19,489	83.5	26,201	74.4
Prosecuting Attorneys' Retirement Fund¹						
6/30/2008	\$ 26,350	\$ 38,069	\$ 11,719	69.2%	\$ 20,617	56.8%
6/30/2009	26,467	44,632	18,165	59.3	20,782	87.4
6/30/2010	26,166	49,174	23,008	53.2	21,016	109.5
6/30/2011	25,651	53,252	27,601	48.2	18,082	152.6
6/30/2012	27,501	56,080	28,579	49.0	21,705	131.7
6/30/2013	48,762	61,940	13,178	78.7	21,217	62.1
Legislators' Retirement System – Defined Benefit Plan						
6/30/2008	\$ 5,120	\$ 5,039	\$ (81)	101.6%	N/A ²	N/A ²
6/30/2009	4,730	5,087	357	93.0	N/A ²	N/A ²
6/30/2010	4,075	4,909	834	83.0	N/A ²	N/A ²
6/30/2011	3,634	4,621	987	78.6	N/A ²	N/A ²
6/30/2012	3,377	4,503	1,126	75.0	N/A ²	N/A ²
6/30/2013	3,428	4,295	867	79.8	N/A ²	N/A ²

¹In accordance with Legislation passed during March 2012, the State appropriated additional monies during FY2013 to reach a funded status of 80.0 percent based on the actuarial valuations as of June 30, 2012, for the following three (3) retirement plans:

Judges' Retirement System – \$90,187 thousand

State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan – \$14,619 thousand

Prosecuting Attorneys' Retirement Fund – \$17,363 thousand

In addition the TRF Pre-1996 Account was appropriated \$206,796 thousand during fiscal year 2013.

²Benefit formula is primarily based on service, rather than compensation.

Refer to Note 10. (Funded Status and Actuarial Information -- Defined Benefit Plans) for the actuarial assumptions and methods used in preparing this schedule.

Indiana Public Retirement System



Required Supplementary Information: Schedule of Employer Contributions

(dollars in thousands)

Public Employees' Retirement Fund

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/2008	\$ 291,397	\$ 303,877	104.3%
6/30/2009	316,059	323,151	102.2
6/30/2010	360,183	331,090	91.9
6/30/2011	483,842	342,779	70.8
6/30/2012	509,724	397,843	78.1
6/30/2013 ¹	477,342	455,658	95.5

Teachers' Retirement Fund 1996 Account

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/2008	\$ 122,009	\$ 132,446	108.6%
6/30/2009	119,331	147,425	123.5
6/30/2010	101,627	154,491	152.0
6/30/2011	154,142	166,633	108.1
6/30/2012	173,651	181,067	104.3
6/30/2013 ¹	167,311	180,714	108.0

1977 Police Officers' and Firefighters' Pension and Disability Fund

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
12/31/2007	\$ 108,741	\$ 122,712	112.7%
12/31/2008	117,773	133,196	112.6
6/30/2009	62,881	64,285	102.2
6/30/2010	126,558	130,775	103.3
6/30/2011	133,903	133,726	99.9
6/30/2012	141,988	135,605	95.5
6/30/2013 ¹	88,287	137,111	155.3

State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/2008	\$ 3,676	\$ 4,854	132.0%
6/30/2009	4,427	5,294	119.6
6/30/2010	5,237	5,256	100.4
6/30/2011	5,179	5,197	100.3
6/30/2012	5,532	5,054	91.4
6/30/2013 ¹	5,003	19,740	394.6 ³

Legislators' Retirement System Defined Benefit Plan

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/2008	\$ 66	\$ 100	151.5%
6/30/2009	45	100	222.2
6/30/2010	63	-	0.0
6/30/2011	113	-	0.0
6/30/2012	113	112	99.1
6/30/2013	140	150	107.1

Teachers' Retirement Fund – Pre-1996 Account

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/2008	\$ 678,050	\$ 675,682	99.7%
6/30/2009	700,307	706,366	100.9
6/30/2010	850,493	731,149	86.0
6/30/2011	894,507	748,978	83.7
6/30/2012	866,207	764,423	88.2
6/30/2013	873,751	1,013,080	115.9 ²

Teachers' Retirement Fund – Total

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/2008	\$ 800,059	\$ 808,128	101.0%
6/30/2009	819,638	853,791	104.2
6/30/2010	952,120	885,640	93.0
6/30/2011	1,048,649	915,611	87.3
6/30/2012	1,039,858	945,490	90.9
6/30/2013	1,041,062	1,193,794	114.7 ²

Judges' Retirement System

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/2008	\$ 10,028	\$ 15,920	158.8%
6/30/2009	16,131	20,861	129.3
6/30/2010	16,077	18,631	115.9
6/30/2011	18,910	19,200	101.5
6/30/2012	19,664	18,896	96.1
6/30/2013	25,458	111,419	437.7 ³

Prosecuting Attorneys' Retirement Fund

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/2008	\$ 1,040	\$ 170	16.3%
6/30/2009	1,340	170	12.7
6/30/2010	1,663	170	10.2
6/30/2011	1,960	170	8.7
6/30/2012	2,037	1,839	90.3
6/30/2013	2,542	19,443	764.9 ³

¹Fiscal Year 2013 Annual Required Contribution has been developed based on actual employer payroll.

²The TRF Pre-1996 Account was appropriated additional monies from the excess state reserves of \$206,796 thousand during fiscal year 2013.

³In accordance with Legislation passed during March 2012, the State appropriated additional monies during FY2013 to reach a funded status of 80.0 percent based on the actuarial valuations as of June 30, 2012, for the following three (3) retirement plans:

Judges' Retirement System – \$90,187 thousand

State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement

Officers' Retirement Plan – \$14,619 thousand

Prosecuting Attorneys' Retirement Fund – \$17,363 thousand

Refer to Note 10. (Funded Status and Actuarial Information – Defined Benefit Plans) for the actuarial assumptions and methods used in preparing this schedule.

Other Supplementary Schedules: Schedule of Administrative and Project Expenses

(dollars in thousands)

	Fiscal Year Ended June 30	
	2013	2012 ¹
<u>Personnel Services:</u>		
Salaries and Wages	\$ 9,518	\$ 9,113
Temporary Services	5,950	6,898
Employee Benefits	4,061	3,828
Total Personnel Services	19,529	19,839
<u>Contractual and Professional Services:</u>		
Benefit Payment Processing Fees	2,555	2,445
Consulting Services	817	684
Actuarial Services	759	889
Legal Services	102	183
Total Contractual and Professional Services	4,233	4,201
<u>Information Technology Services:</u>		
Software and Licenses	1,473	1,873
Data Processing	1,427	879
Other Computer Services	2	150
Total Information Technology Services	2,902	2,902
<u>Communications:</u>		
Postage	829	1,004
Telephone	369	133
Printing	281	763
E-communications	120	-
Total Communications	1,599	1,900
<u>Miscellaneous:</u>		
Depreciation and Amortization	2,370	1,375
Office Rent and Expenses	1,007	974
Equipment Rental	178	87
Memberships and Training	148	109
Travel	61	51
Other Administrative Expenses	166	51
Total Miscellaneous	3,930	2,647
Total Administrative Expenses	\$ 32,193	\$ 31,489
Total Project Expenses	\$ 13,728	\$ 9,359
Total Administrative and Project Expenses	\$ 45,921	\$ 40,848

¹Schedule of Administrative and Project Expenses as of June 30, 2012 has been restated to provide greater transparency and is reflected as comparable to INPRS' June 30, 2013 reporting classifications.

Other Supplementary Schedules: Schedule of Administrative Contractual and Professional Services Expenses

(dollars in thousands)

Vendor Name	Fiscal Year Ended June 30		Nature of Services
	2013	2012 ¹	
Xerox	\$ 2,576	\$ 2,506	Benefit Payment Services
PricewaterhouseCoopers LLP	651	721	Actuarial Services
Protiviti Inc.	219	212	Enterprise Risk Management/Vendor Management
Indiana State Board of Accounts	193	44	Audit Services
Nyhart, Inc.	108	167	Actuarial Services
Gartner, Inc.	70	44	IT Research
Ice Miller LLP	67	116	Legal Services
AIRvan Consulting LLC	65	67	Market Research Services
Omkar Markand, M.D.	58	50	Medical Consulting
CEM Benchmarking, Inc.	40	35	Benchmarking Services
Ernst & Young LLP	34	172	Management Consulting
Automatic Data Processing, Inc.	33	24	Payroll Processing Services
ERP Control Specialists, LLC	29	20	Internal Audit Software
Flashpoint	16	-	Management Consulting
Segal	15	-	Management Consulting
Briljent	14	-	Training Services
Krieg DeVault LLP	12	24	Legal Services
McLagan	9	40	Human Resource Management Services
Stephenson Morow & Semler	4	11	Legal Services
KPMG LLP	-	(88)	Strategic Assessment and IT Consulting
Other Contractual and Professional Services	20	36	Other Services
Total Administrative Contractual and Professional Services Expenses	\$ 4,233	\$ 4,201	

¹Schedule of Administrative Contractual and Professional Services Expenses as of June 30, 2012 has been restated to be more comparable to INPRS' June 30, 2013 reporting classifications.

Fees paid to investment professionals can be found in the Investment Section.

Other Supplementary Schedules: Schedule of Project Expenses

(dollars in thousands)

	Fiscal Year Ended June 30	
	2013	2012
<u>Personnel Services:</u>		
Temporary Services	\$ 4,444	\$ 2,626
Salaries and Wages	371	446
Employee Benefits	128	169
Total Personnel Services	4,943	3,241
<u>Contractual and Professional Services:</u>		
Consulting Services	7,244	5,173
Legal Services	-	2
Total Contractual and Professional Services	7,244	5,175
<u>Information Technology Services:</u>		
Data Processing	1,419	711
Software and Licenses	172	204
Total Information Technology Services	1,591	915
Communications and Miscellaneous	(50)	28
Total Project Expenses	\$ 13,728	\$ 9,359

Other Supplementary Schedules:
Schedule of Project Contractual and Professional Services Expenses

(dollars in thousands)		Fiscal Year Ended June 30		
Vendor Name	2013	2012	Nature of Services	
CherryRoad Technologies Inc.	\$ 3,389	\$ 1,456	Strategic Assessment and IT Consulting	
Oracle America, Inc.	1,941	535	Strategic Assessment and IT Consulting	
Briljant	1,051	1,022	Training Documentation	
Xerox	532	139	Strategic Assessment and IT Consulting	
IBM Corporation	159	-	Software Licenses	
KPMG LLP	121	2,021	Strategic Assessment and IT Consulting	
Guidesoft	51	-	Training Documentation	
Ice Miller LLP	-	2	Legal Services	
Total Project Contractual and Professional Services Expenses	\$ 7,244	\$ 5,175		

Fees paid to investment professionals can be found in the Investment Section.

Other Supplementary Schedules: Schedule of Investment Expenses

(dollars in thousands)

	Fiscal Year Ended June 30	
	2013	2012
Investment Consultants:		
Strategic Investment Solutions	\$ 1,000	\$ 1,071
Aksia	500	525
ORG Portfolio Management LLC	322	339
Capital Cities	105	128
Xerox	69	-
Other	13	-
Institutional Shareholder Services	7	93
Hinkle Creek Consulting	-	268
Hamilton Lane	-	42
S.R. Batliboi and Co.	-	22
RV Kuhns and Associates Inc.	-	10
Total Investment Consultants	2,016	2,498
Investment Custodians:		
BNY Mellon	513	439
JP Morgan	-	98
The Northern Trust Company	-	(5)
Total Investment Custodians	513	532
Investment Recordkeeper Fees	5,705	6,098
Investment Management Fees	127,093	106,484
Investment Staff Expenses	1,817	1,322
Investment Administrative Expenses	1,242	840
Total Investment Expenses	\$ 138,386	\$ 117,774

